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HOW TO PROPEL INCLUSIVE AND SUSTAINABLE GROWTH IN THE SPECA SUBREGION?

(BACKGROUND PAPER)

The background paper for the 2019 SPECA Economic Forum has been prepared by Mr. Rumen DOBRINSKY, international expert and UNECE consultant. The views in this document are those of the author and do not necessarily express the position of the UNECE.

1. Introduction

Economic development, prosperity and wellbeing are associated with lasting economic growth and therefore achieving high and sustained growth has always been a key objective of economic policy. The United Nations 2030 Agenda for Sustainable Development (the 2030 Agenda) adopted in 2015 widened this policy focus emphasizing the need to combine in a balanced manner the objectives of ending poverty, protecting the planet, and ensuring social justice. Thus the 2030 Agenda integrates the three dimensions of sustainable development: economic, social and environmental. To this effect it includes 17 comprehensive and wide-ranging Sustainable Development Goals (SDGs) and contains 169 related targets and covers issues such as natural resources management, sustainable consumption and production, effective institutions, good governance, the rule of law and peaceful societies.[1]

What concerns economic growth proper, the 2030 Agenda stresses the need to ensure that economic growth is sustainable in the broad sense (growth which is both robust and stable and at the same time environmentally sustainable) and inclusive (which ensures widely shared prosperity). Desirable features of economic growth such as sustainability and inclusiveness are not new; they have been attracting the attention of academics, policymakers and experts for quite some time. However, it was only in the 2030 Agenda that these characteristics were addressed and spelled out in a holistic way, taking into account their multi-faceted nature and interdependence with all aspects of human development.

Attaining the SDGs, including those related to sustainable and inclusive growth, is a shared responsibility of all countries and requires the joint efforts of peoples, governments, organizations, businesses and civil society. It is expected that each country that signed up to the SDGs would adopt relevant national legislation and regulations and develop action plans and programmes backed by adequate resources targeting these ambitious goals. The countries participating in the United Nations Special Programme for the Economies of Central Asia (SPECA)[2] have signed up to the 2030 Agenda and hence have joined to the worldwide efforts to address its challenges.

Many of the SDGs are of a transboundary nature and have cross-border dimensions; their pursuit therefore requires cross-country cooperation and coordination. This also refers to many SDGs in the context of the SPECA subregion. Located in a specific geographic territory in and around Central Asia, the landlocked SPECA countries face a number of common or similar challenges related to their socio-economic development, including the objective to achieve sustainable and inclusive growth. If the countries in the subregion join their efforts towards achieving the SDGs, this will ensure complementarity and generate synergies thus significantly increasing the efficiency and effectiveness of the policy actions. Moreover, sustainable and inclusive growth in the SPECA subregion also has important cross-border dimensions. Addressing some of the related challenges would be difficult, if not impossible, in the absence of joint efforts; on the contrary, it would greatly benefit from subregional collaboration.

[1] After subsequent discussions, the final list of sustainable development indicators was extended to include 230 indicators.

[2] The countries participating in the United Nations Special Programme for the Economies of Central Asia (SPECA) are Afghanistan, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan.

This paper addresses some issues related to the bigger question: How to achieve sustainable and inclusive growth in the SPECA subregion? On the one hand, it analyses the broader nature of sustainable and inclusive growth in the context of the 2030 Agenda, taking into account the specificity of this subregion. On the other hand, the paper seeks to provide background analytical insights that would stimulate the discussions at the 2019 SPECA Economic Forum, namely, how subregional cooperation on issues related to connectivity, trade and transport facilitation could contribute to sustainable and inclusive growth in the subregion.

The paper is organized as follows. At first we provide an overview of some conceptual issues related to the notion of inclusive and sustainable growth. We then undertake an empirical assessment of the past patterns of economic growth in the SPECA countries and seek to analyse to what extent it has been inclusive and sustainable. This empirical assessment also helps to analyse and identify the factors that contribute to (or hamper) the efforts of policymakers to achieve inclusive and sustainable growth. The paper then follows with some general policy conclusions on how to achieve inclusive and sustainable growth in the subregion. Finally, we address the question of how the SPECA can support the efforts of policymakers in the subregion to achieve inclusive and sustainable growth with a special focus on issues related to connectivity, trade and transport facilitation.

2. Inclusive and Sustainable Growth: Conceptual Issues

The understanding that the fruits of economic growth should be broadly shared within society has not always been universally shared. Mainstream economics for a long time focused on the role of the market forces as engines of economic growth and not so much on ensuring equitable outcomes of market-driven economic development. However, the reality test of applying laissez-faire policies has been providing increasing evidence of undesirable outcomes such as growing income inequality and persistence of poverty levels which weaken cohesion within society. In particular, it has been observed that the opportunities for decent life at the bottom of the income ladder have been worsening in most economies.[3] In addition, as concluded by the OECD, high levels of inequality affect negatively the public confidence in markets, which in turn, may have an adverse impact on long-term growth and macroeconomic stability.[4] Moreover, such undesirable outcomes have been all the more evident in developing and emerging economies where they tend to cement an already unfavourable social stratification.

Over time, the understanding that economic development and growth should deliver prosperity, welfare and well-being to all has been grasped by more and more people, including an increasing proportion of academics and national and international policymakers. This growing public awareness prompted an increasing recognition of the understanding that growth should be inclusive.

Inclusive growth has many facets and there are different definitions.[5] The notion is also visibly present in the work of many international organizations. The OECD defines inclusive growth as "… economic growth that creates opportunity for all segments of the population and

[3] OECD COPE Centre for Opportunity and Equality, "Income inequality remains high in the face of weak recovery", 2016.
[4] OECD, *The Framework for Policy Action on Inclusive Growth*, 2018.
[5] See R. l Ranieri and R. A. Ramos, "Inclusive Growth: Building a Concept", International Policy Centre for Inclusive Growth, Working Paper No. 104, March 2013.

distributes the dividends of increased prosperity, both in monetary and non-monetary terms, fairly across society."[6] According to the World Bank, "… inclusive growth is that which allows people to contribute to and benefit from economic growth".[7] The Asian Development Bank refers to inclusive growth as "… growth that not only creates new economic opportunities, but also one that ensures equal access to the opportunities created for all segments of society, particularly for the poor".[8] According to the UNDP, "the concept of inclusive growth typically refers to … broadly shared prosperity resulting from economic growth."[9] The IMF's comprehensive definition goes on as: "… inclusive growth relates to a broad sharing of the benefits of, and the opportunities for, economic growth, and reflects growth that is robust and broad-based across sectors, promotes productive employment across the labour force, embodies equal opportunities in access to markets and resources, and protects the vulnerable."[10] By contrast, a concise definition claims that: "Growth is inclusive if it supports high levels of employment and rising wages."[11] The understanding that future economic growth in the European Union should be inclusive and sustainable is also embodied in the EU's Strategy 2020 which describes inclusive growth as "fostering a high-employment economy delivering economic, social and territorial cohesion".[12]

Probably the key distinguishing feature of the notion of inclusive growth is its dual emphasis on outcomes as well as opportunities. Inclusive growth refers simultaneously to the process itself and to its upshots, i.e., people should both contribute to and benefit in a broad sense from economic growth. Moreover, for the fruits of this process to be perceptible, it implies that growth should be robust and lasting. Thus inclusive growth in itself refers to several interlinked characteristics that should be preserved over the longer run. For developing and emerging economies which have relatively low levels of per capita income, inclusive growth in any event necessitates the speeding up of the pace of growth.

Inclusive growth is at the centre of the 2030 Agenda, in particular, SDG8 "Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all". The 2030 Agenda puts the emphasis on the last aspect, namely the promotion of decent work for all which signifies that everybody should not only have access to job opportunities but also that every job in the labour market should offer respectable working conditions and remuneration that ensures acceptable standard of living.

As regards the meaning of "sustainable growth", it also has a dual significance. Thus within the Europe 2020 Strategy sustainable growth implies promoting a more resource efficient, greener and competitive economy. In the context of the 2030 Agenda, this notion also clearly implies that growth should be both stable and sustained over the longer run and should at the same time be environmentally sustainable.

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[6] OECD, *All on Board. Making Inclusive Growth Happen*, 2014.
[7] E. Ianchovichina, and S. Lundstrom, "Inclusive Growth Analytics: Framework and Application", World Bank Policy Research Working Paper, No. 4851.
[8] I. Ali and H. Hwa Son (2007), "Measuring inclusive growth", *Asian Development Review*, Vol. 24, No. 1, pp.11-31.
[9] UNDP, *UNDP's Strategy on Inclusive and Sustainable Growth*, 2017, p.4.
[10] IMF, *Fostering Inclusive Growth*, 2017.
[11] M. H. Khan, "The Political Economy of Inclusive Growth", In: *Promoting Inclusive Growth Challenges and Policies: Challenges and Policies*, OECD, The World Bank, 2012.
[12] European Commission, *Europe 2020. A European Strategy for Smart, Sustainable and Inclusive Growth*, 2010.

In accordance with economic theory, there are several additional prerequisites for growth to be stable and sustained over the longer run. In particular, this implies that the growth process should be broad-based across economic sectors and would predominantly rely on the non-resource sectors of the economy. Stability of the economy also indicates its resilience to external shocks. Countries open to international trade and exposed to capital flows are vulnerable to external disturbances as international trade and financial markets are prone to fluctuations. Volatility in the sources of income and investment can make economic growth unstable and short-lived and therefore the countries need to increase the resilience of their economy to external shocks. Some authors argue that sustaining growth in immature economies requires institutional solutions to address existing market failures. Furthermore, if these market failures are associated with weak property rights, the policies need to focus on governance reforms that strengthen property rights.[13] Another challenge for such economies is that usually they only have few sectors that have achieved (or can achieve) international competitiveness and therefore their prospects for embarking on a path of broad-based growth are limited. Sustaining inclusive growth in these conditions requires the opening up of new competitive sectors and moving existing competitive sectors up the quality and value chain.[14]

As regards environmental sustainability, one also needs to take into account the fact that its relationship with poverty reduction and economic growth is rather complex.[15] As indicated by the experience of many countries, raising per capita incomes and achieving high economic growth has often been associated with increases in carbon dioxide emissions. On the contrary, the pursuit of environmental sustainability may involve foregoing some growth opportunities with harmful environmental consequences. Consequently such policies may lead to lower rates of growth in the short term which, in turn, may have negative consequences for poverty reduction. In this regard policymakers may face conflicting objectives and would need to deal with important trade-offs in their policy agenda.

In the context of the 2030 Agenda, in addition to the economic and environmental dimensions, the notion of "sustainable development" has a third, very important dimension – the social one. Without going into a deeper discussion, one can broadly assume that the notion of inclusive growth as defined above very much covers some key elements of the social dimension of sustainable development. In this sense, there is a considerable overlap in the semantics of these notions and in what follows we shall be referring to some of these terms interchangeably.

Recapitulating, the understanding of inclusive and sustainable growth as embodied in the 2030 Agenda implies, on the one hand, numerous macro and micro determinants of high economic growth and the links between them and, on the other hand, the patterns of distribution of the outcomes of growth. It also entails a range of facets that are not of purely economic nature, but refer to the social dimensions of development and the protection of nature.

The main features of inclusive and sustained growth (ISG) that follow the development paradigm described above are summarized in Box 1:

[13] M. H. Khan, op.cit.
[14] Ibid.
[15] UNDP, *UNDP's Strategy on Inclusive and Sustainable Growth*, 2017.

Box 1. The main features of inclusive and sustainable growth

Inclusiveness (including some social dimensions of sustainable development):

- Inclusive growth means empowering people through high levels of employment and fighting poverty.
- In the context of the 2030 Agenda inclusiveness implies not only employment opportunities for all but also decent work for all.
- ISG focuses on economic growth as a key necessary condition for poverty reduction and social inclusion. It is the means for creating decent work opportunities and working conditions for all.
- High and sustained growth is often the main contributing factor – but not a sufficient condition – in reducing poverty and ensuring social cohesion; it is the pattern of growth that can and should support inclusiveness.
- Inclusiveness of growth stands for the offering of opportunities to the large part of the country's population in terms of their access to markets, resources and institutional environment.
- ISG focuses on the opportunities for productive employment (implying both employment and productivity growth) rather than on income redistribution.
- Both asset inequality and income inequality matter for growth outcomes and the inclusiveness of growth.
- Inclusive opportunities refer to the access of individuals to gainful employment as well as the access of would-be entrepreneurs to the business market.
- ISG adopts a long term perspective and is concerned with high and sustained growth.
- High and sustained growth coupled with poverty reduction and social inclusiveness can only be realized when an increasing share of the labour force contributes to and benefits from the growth process.
- Opportunities to acquire and improve skills, open and inclusive labour markets, training and social protection systems have increasing importance in building cohesive societies.
- Ensuring gender equality is a necessary condition for increasing labour force participation thus adding to growth and social cohesion.
- Opportunities for skill-building and access to markets should be available to all throughout the lifecycle.

Sustainability (economic and environmental):

- For growth to be sustained in the longer run, it should be broad-based, diversified and balanced.
- High and sustained growth in the interlinked global environment requires building an efficient and competitive economy.
- Achieving high and sustained growth also requires making the economy resilient to external shocks.
- Growth is environmentally sustainable when it preserves nature and conserves natural resources for the future generations.
- The harmful environmental damage of unregulated growth includes a wide variety of possible negative effects such as anthropogenic environmental pollution and climate change, water stress, deforestation, biodiversity loss, depletion of natural resources, and degradation of ecosystems.
- Environmentally sustainable growth requires a transition to a low-carbon and resource-efficient economy which prevents environmental degradation, biodiversity loss and unsustainable use of resources.
- In most cases it also implies the development and introduction of new processes and technologies, including green technologies.

As already noted, market forces alone do not necessarily deliver inclusive and sustainable growth. Economic growth may acquire such features mainly as a result of deliberate policy interventions by governments that have incorporated such objectives in their policy agenda. Moreover, achieving inclusiveness and sustainability requires a lasting policy effort both in terms of designing and implementing a broad range of economic policies and the institutional support (in some cases the establishment of new institutions) to the pursuit of this policy agenda. These aspects as well as their relevance for the SPECA countries are developed in more detail in section 5.

3. Was Growth in the SPECA Countries Inclusive and Sustainable? Review of Recent Evidence

Embarking on a path of inclusive and sustainable growth is both a policy objective of its own and is also part of the commitments that each country has undertaken under the 2030 Agenda, namely, to pursue the sustainable developments goals and objectives. Thanks to this dual nature, monitoring and tracing the progress that each country makes towards some SDGs (those that have relevance for ISG) also provides evidence about the pace and pattern of growth in these countries. This section first looks at some of the available empirical evidence on the progress of the SPECA countries towards such SDGs. Then we look at some additional empirical evidence regarding the inclusiveness and sustainability of growth in these countries. The main objective is to analyse the pattern of economic growth in these countries and draw some conclusions regarding the question: to what extent growth in the SPECA countries has been inclusive and sustainable? This section is mostly devoted to the presentation of available statistics from different sources while the analysis and conclusions based on all available data are presented in the next section.

Measuring progress towards SDGs is in itself a challenge given the multidimensional nature of most of these goals. For this purpose, the 2030 Agenda includes also a list of 169 concrete targets, most of them of quantitative nature, which should allow monitoring progress in implementation and advance towards achieving the goals. Subsequently, for practical purposes, the SDG targets were translated into 230 Sustainable Development Goal indicators within the newly designed global indicator framework that was developed by the UN Inter-Agency and Expert Group on SDG Indicators.[16] All 230 SDG indicators are quantitatively measurable which should allow accurate and methodologically consistent data collection for individual countries as well as subsequent aggregation by subregions and regions as well as at the global level.

Practical work on data collection and monitoring progress towards the SDGs is still in its initial phases. For this purpose the UN secretariat is developing a platform called 'Global SDG Indicators Database' which provides access to data compiled through the UN System in preparation for the Secretary-General's annual report on "Progress towards the Sustainable Development Goals".[17] Using these data, the UN secretariat started compiling regular reports on progress towards the Sustainable Development Goals. As of the moment of writing this paper, three such reports have been published (2016, 2017 and 2018) containing snapshots of the current situation with respect to the 17 SDGs by providing an overview of progress towards

[16] Report of the Inter-Agency and Expert Group on Sustainable Development Goal Indicators (E/CN.3/2016/2/Rev.1).
[17] https://unstats.un.org/sdgs/indicators/database/.

these goals at the global and regional levels.[18] These reports, however, are still partial; they cover only a selection of indicators for which data were available at the time of its compilation; plus, they do not contain data at the country level. By contrast, the Global SDG Indicators Database contains country-level data on the SDG indicators to the extent such statistics are available.

Countries committed to the 2030 Agenda are expected to build their own monitoring systems by compiling on a regular basis statistics on the 230 SDG indicators. In addition to that, as part of its follow-up and review mechanisms, the 2030 Agenda encourages member states to conduct regular reviews of progress at the national and sub-national levels. These voluntary national reviews are expected to serve as a basis for the regular reviews by the high-level political forum meeting under the auspices of ECOSOC.[19] As of the moment of writing, 47 countries had volunteered to conduct voluntary national reviews. These include three SPECA countries, namely Azerbaijan, Kazakhstan and Turkmenistan, and in July 2019, Kazakhstan presented its first such review to the High-Level Political Forum on Sustainable Development.[20] The preparation of these reviews enables countries to identify the primary areas where further efforts towards the SDGs are required and also help in further mainstreaming of SDG objectives and indicators into the national planning framework and on ensuring their effective implementation and monitoring.[21]

However, the tasks of building monitoring systems and undertaking voluntary national reviews are resource demanding and their implementation will take time, especially in less developed countries. At present, some of the SPECA countries are still in the initial phase of establishing such systems and hence comparable relevant data from national sources are not readily available. For this reason, we illustrate the current progress of the SPECA countries towards some of the SDGs on the basis of selected data the Global SDG Indicators Database.

The 2030 Agenda contains Goal 8 which refers exactly to the promotion of inclusive and sustainable growth. However, in addition to that there are also several other goals which, to a different extent, relate to some aspects of the broad understanding of ISG as discussed in the previous section. Reviewing the content of the SDGs and indicators contained in each of them, we have selected the following SDGs of the 2030 Agenda which are most pertinent to the coverage of the notion inclusive and sustainable growth:

- Goal 1. End poverty in all its forms everywhere.
- Goal 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.
- Goal 9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.
- Goal 10. Reduce inequality within and among countries.
- Goal 12. Ensure sustainable consumption and production patterns.

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[18] Progress towards the Sustainable Development Goals. Report of the Secretary-General. 2016; 2017; 2018.

[19] https://sustainabledevelopment.un.org/vnrs/.

[20] Ministry of National Economy of the Republic of Kazakhstan, *Kazakhstan Voluntary National Review 2019 on the Implementation of the 2030 Agenda for Sustainable Development* (https://sustainabledevelopment.un.org/content/documents/23946KAZAKHSTAN_DNO__eng_4.Juli19.pdf).

[21] http://www.kz.undp.org/content/kazakhstan/en/home/presscenter/pressreleases/2019/july/kazakhstan-introduced-its-first-voluntary-national-report-on-sus.html.

At present, the Global SDG Indicators Database contains only a limited number of indicators for the SPECA countries, including the indicators specified for each of the above five goals. Table 1 contains a selection of such statistics for the most recent available years. For benchmarking purposes, we have included in the table also data for some comparator countries: the Russian Federation, China, the Republic of Korea and World, wherever data are available and meaningful.

Table 1. SPECA countries performance by selected sustainable development indicators, 2018

Sustainable Development Indicators		Afghanistan	Azerbaijan	Kazakhstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan	China	Republic of Korea	Russian Federation	World
1.1.1	Proportion of population below international poverty line (%)	..	0	0	1.4	4.8	(0.2)	..	..	0	0	9.0
1.2.1	Proportion of population living below the national poverty line (%)	30.0	5	2.7	25.4	(31.5)	..	(14)	3.1	..	12	..
8.1.1	Average annual growth rate of real GDP per capita, 2008-2017 (%)	2.8	2.2	2.7	2.7	3.8	8.0	6.3	7.9	2.7	0.8	1.1
8.2.1	Average annual growth rate of real GDP per employed person, 2008-2017 (%)	2.1	1.2	2.6	3.3	3.8	7.3	5.4	8.2	2.1	1.0	1.3
8.5.2a	LFS unemployment rate, 15+ years, 2008-2017 average (%)	(23.9)	5.3	5.5	8.0	..	(11.0)	..	..	3.5	6.3	5.3
8.5.2b	LFS youth unemployment rate, 15-24 years, 2008-2017 average (%)	..	14.2	5.3	15.3	..	..	..	..	9.8	15.5	12.5
8.10.1a	Number of automated teller machines (ATMs) per 100,000 adults, 2017 or latest available year	1	33	74	31	12	..	22	81	276	169	..
8.10.1b	Number of commercial bank branches per 100,000 adults, 2017 or latest available year	2	11	3	8	7	..	36	9	16	30	..
9.2.1a	Manufacturing value added as a proportion of GDP, 2017 (%)	11.6	5.5	10.1	12.8	8.4	38.0	16.5	31.6	28.8	13.3	16.3
9.2.1b	Manufacturing value added per capita, 2017 (constant 2010 US dollars)	70	310	1079	138	78	2781	342	2266	7573	1511	1708
9.2.2	Manufacturing employment as % of total employment, 2017 or latest available year (%)	6.0	5.1	6.4	7.6	5.5	..	..	..	16.8	14.4	13.1
9.5.1	Research and development expenditure as % of GDP, 2016 or latest available year (%)	..	0.21	0.14	0.12	0.11	..	..	2.06	4.22	1.10	1.70
9.c.1	Proportion of population covered by a mobile network, by technology (%)	90	100	97	98	90	76	98	100	100	90	96

.. – data not available.
Source: United Nations Global SDG Indicators Database (https://unstats.un.org/sdgs/indicators/database/). Numbers in brackets come from other sources.

Among the most important features of the macroeconomic performance of the SPECA countries as reflected in Table 1 are the flowing:

- During the past 10 years per capita GDP in the SPECA countries grew on average considerably faster than that for the world as a whole and also faster than per capita GDP in the Russian Federation and, in most cases, the Republic of Korea. However, the rate of growth of GDP per capita in the SPECA countries was considerably below that of China.
- The same trends can be traced with respect to productivity growth as measured by GDP per one employed person indicating that economic growth in most countries of the SPECA subregion was backed by significant productivity growth.
- At the same time, there is some heterogeneity in the growth and productivity performance across the region: not all countries managed to sustain solid growth in recent years.
- In most SPECA countries economic growth was accompanied by adequate social policies which have helped reduce considerably poverty in the SPECA subregion.
- However, high unemployment is still a problem in some SPECA countries; and the problem is especially acute as regards youth unemployment.
- The financial sector in the SPECA countries is still underdeveloped and its outreach to the population is still inadequate as compared to countries like the Republic of Korea, the Russian Federation and China.

Another source of information on the SDG performance and achievements of individual countries is the SDG Index and Dashboards Report prepared by non-governmental bodies.[22] In accordance with its self-proclaimed objectives, this report synthesizes metrics with available data (based whenever possible on the official SDG indicators) to enable countries to take stock of where they stand with regards to fulfilling the SDGs and help them set priorities for action. The SDG Index and Dashboards are therefore not official SDG monitoring tools and are subject to some limitations and caveats (such as the need to use proxies for missing data). Nevertheless, the advantage is that this report presents estimates (albeit rough) on SDG performance and progress in achievements for almost all countries in the world vis-à-vis virtually all SDGs.

Table 2 reproduces the SDG Dashboards for the SPECA countries as presented in the most recent (2018) SDG Index and Dashboards Report.

[22] Bertelsmann Stiftung and Sustainable Development Solutions Network, *SDG Index and Dashboards Report 2018. Global Responsibilities Implementing the Goals.*

Table 2. Sustainable Development Goals Dashboards for the SPECA countries, 2018

	Sustainable development goals	Afghanistan	Azerbaijan	Kazakhstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan
1	End poverty							
2	Food security, sustainable agriculture							
3	Healthy lives and wellbeing							
4	Inclusive education, lifelong learning						n.a.	
5	Gender equality, women empowerment							
6	Sustainable water and sanitation							
7	Sustainable and modern energy							
8	Inclusive and sustainable growth, full employment							
9	Sustainable infrastructure and industrialisation, innovation							
10	Reduce inequality within and among countries	n.a.					n.a.	n.a.
11	Smart and sustainable cities							
12	Sustainable consumption and production							
13	Combat climate change and its impacts							
14	Sustainable use of oceans, seas and marine resources	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
15	Sustainable use of ecosystems and forests							
16	Peaceful, inclusive societies for sustainable development							
17	Global partnership for sustainable development						n.a.	

Note :

	Sufficient
	Compatible
	Insufficient
	highly insufficient

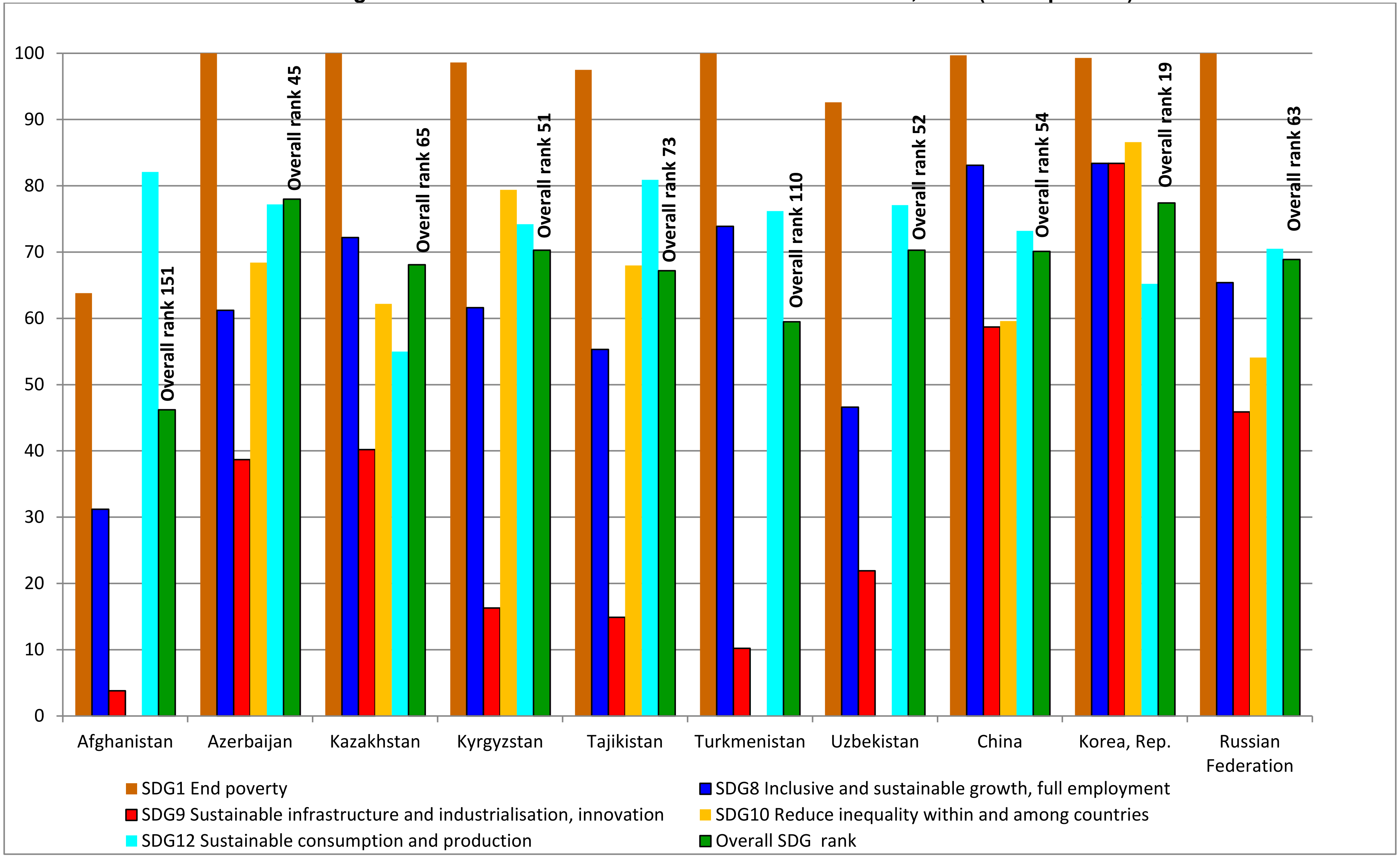
Source: Bertelsmann Stiftung and Sustainable Development Solutions Network, *SDG Index and Dashboards Report 2018. Global Responsibilities Implementing the Goals*.

Although these data are rather rough, they do provide an overview of the progress of the SPECA subregion vis-à-vis the SDGs. In particular, they suggest that at present, the SPECA countries face, albeit to a different degree, significant challenges in achieving the SDGs; in many cases, there are considerable gaps in the degree of achievement and hence they have to cover a large distance to the desired targets. They also indicate that from within the 17 SDGs the SPECA countries have achieved sufficient progress only with respect to Goal 1 'End poverty in all its forms'.

Figure 1 provides a closer look into the performance of the SPECA countries vis-à-vis the five SDGs specified above as the most relevant with respect to inclusive and sustainable growth. The bars in this figure reflect the "scores" of each country on individual SDGs as reported in the *SDG Index and Dashboards Report 2018*. The scores are scaled between 0 and 100 where the highest score 100 corresponds to the optimal performance with regard to the respective Goal whereas 0 corresponds to the absence of any performance. Figure 1 also presents the overall SDG score of each country (the aggregated weighted average of the country scores by all SDGs[23]) as well as the overall SDG rank of the SPECA countries out of 156 countries worldwide presented in the *SDG Index and Dashboards Report 2018*.

[23] On the SDG Index and Dashboards methodology see G. Lafortune, G. Fuller, J. Moreno, G. Schmidt-Traub and C. Kroll, "SDG Index and Dashboards. Detailed methodological paper", September 2018. On the coherence of the SDG Index see European Commission JRC Technical Reports, *JRC Statistical Audit of the Sustainable Development Goals Index and Dashboards*, 2019.

Figure 1. Selected SDG scores for the SPECA countries, 2018 (100=optimum)



Source: Bertelsmann Stiftung and Sustainable Development Solutions Network, *SDG Index and Dashboards Report 2018. Global Responsibilities Implementing the Goals*.

The scores presented in Figure 1 provide some further insights into the SDG performance of the SPECA countries. Quite remarkably, the overall SDG rank of some SPECA countries is quite high relative to the level of GDP per capita in these countries. Azerbaijan is the highest ranking SPECA country (rank 45 out of 156 countries worldwide), followed by Kyrgyzstan (rank 51) and Uzbekistan (rank 52). In the overall ranking these three SPECA countries are ahead of China (rank 54) and the Russian Federation (rank 63).

As regards the scores by individual SDGs relevant with respect to inclusive and sustainable growth, Figure 1 confirms the satisfactory performance of the SPECA countries with respect to Goal 1 ‘End poverty in all its forms’. Basically one could claim that with the exception of Afghanistan, poverty has been eradicated in the rest of the SPECA subregion. However, the scores of the SPECA countries with respect to the remaining four SDGs defining inclusive and sustainable growth are classified as “insufficient” or even “highly insufficient”. The situation is the worst vis-à-vis Goal 9 ‘Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation’ where the performance of all SPECA countries is rated as “highly insufficient”. The situation can be considered unsatisfactory also as regards Goal 8 ‘Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all’ where the performance of four SPECA countries is rated as “highly insufficient”. Furthermore, in contrast to the overall progress to the SDGs, the SPECA countries lag considerably behind the comparator countries (the Russian Federation, the Republic of Korea and China) as regards the progress towards most of the DGSs relevant to inclusive and sustainable growth.

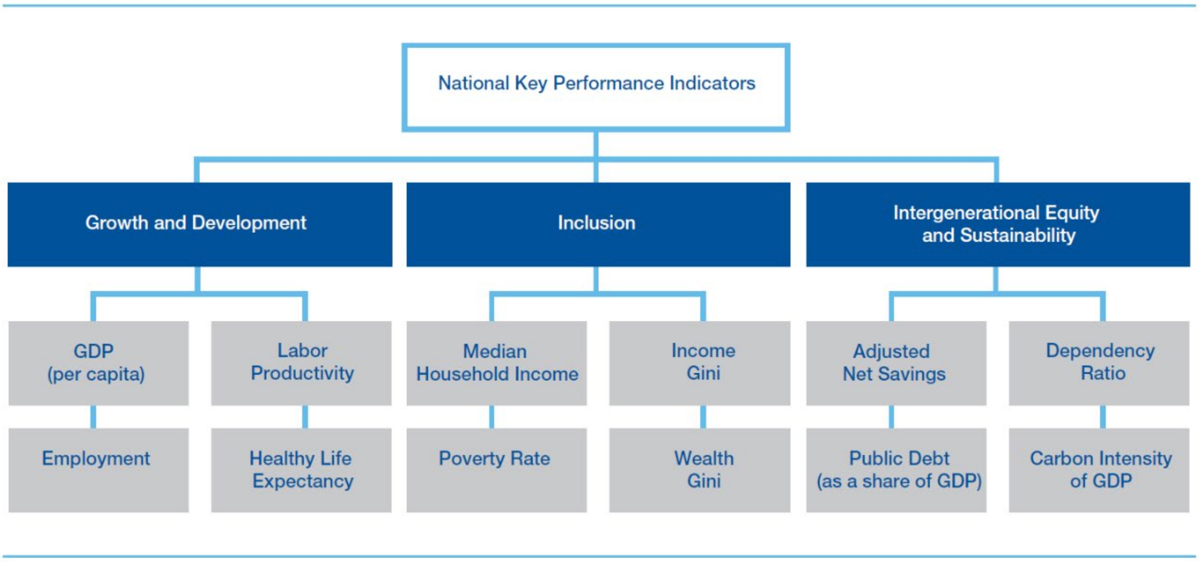
A third important source of information on how different countries fare with respect to inclusive and sustainable growth is the Inclusive Development Index (IDI) developed by the World Economic Forum (WEF).[24] IDI is based on a set of national performance indicators and provides a comprehensive representation of individual countries’ performance targeting inclusive and sustainable development. The IDI consists of 3 pillars:

- Growth and development;
- Inclusion;
- Intergenerational equity and sustainability,

each of which is based on a wider dashboard of national performance indicators (12 in all) in the three areas as shown in Figure 2.

[24] World Economic Forum, *The Inclusive Development Index* 2018.

Figure 2. Composition of the WEF Inclusive Development Index



Source: World Economic Forum, *The Inclusive Development Index 2018*.

WEF collects source information on the national performance indicators from individual countries in order to compile their IDI. In addition to the static assessment which refers to specific years, WEF compiles information on their dynamic performance, namely, how the national indicators change over time and whether the IDI improves or worsens over time. The latest WEF IDI report contains information on 103 countries including 4 SPECA countries (Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan). Thus the most recent 2018 report concludes that 64% of the 103 countries for which data are available have seen their IDI scores improve over the past five years. This is attributed to the recent efforts by national policymakers to broaden socioeconomic progress and make growth more inclusive.

Table 3 contains the Inclusive Development Indicators for the four SPECA countries in 2018 as well as the respective data for three comparator countries (the Russian Federation, China and the Republic of Korea). The upper panel of the table reports the current performance of individual countries by the national indicators and the lower part of the table – the 5-year trend as measured by the change (or rate of change) of the national indicators.

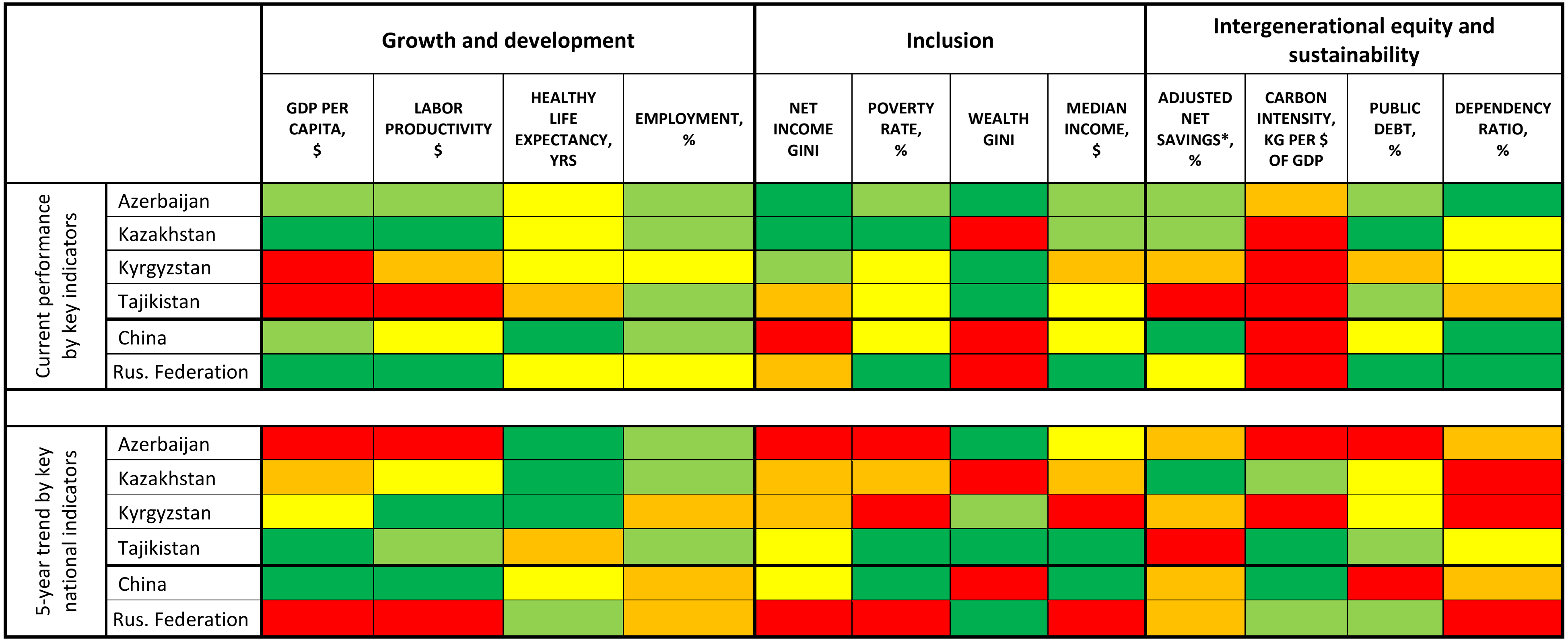
Table 3. Inclusive development indicators for selected SPECA countries, 2018

		Growth and development				Inclusion				Intergenerational equity and sustainability			
		GDP PER CAPITA, $ and %	LABOR PRODUCTIVITY $ and %	HEALTHY LIFE EXPECTANCY, years and trend	EMPLOYMENT, % and trend	NET INCOME GINI and trend	POVERTY RATE, % and trend	WEALTH GINI and trend	MEDIAN INCOME, $ and trend	ADJUSTED NET SAVINGS, % and trend	CARBON INTENSITY, kg per $ of GDP and trend	PUBLIC DEBT, % and trend	DEPENDENCY RATIO, % and trend
Current performance by key national indicators	Azerbaijan	6116	34886	64.7	63.2	30.9	2.5	68.3	8.5	18.4	145.4	28.3	38.0
	Kazakhstan	10547	46769	63.3	69.7	27.2	0.3	89.2	10.6	4.6	285.1	21.9	50.3
	Kyrgyzstan	1017	7610	63.9	62.4	32.4	17.5	71.6	4.6	-4.7	469.2	66.0	55.4
	Tajikistan	917	6466	62.1	60.7	31.1	56.7	71.0	2.9	14.7	1104.6	34.1	60.9
	China	6416	21630	68.5	68.0	50.0	11.1	81.9	6.6	35.7	201.1	42.9	36.6
	Korea, Rep.	25023	68416	73.2	58.8	29.8	14.4	71.9	N/A	19.2	68.8	37.9	37.2
	Russian Federation	11039	46903	63.4	60.5	32.8	0.5	92.3	18.8	13.1	213.5	16.4	43.1
5-year trend by key national indicators	Azerbaijan	0.9	0.9	2.7	2.3	11.8	2.2	3.8	0.6	7.9	9.7	16.9	-1.2
	Kazakhstan	3.1	4.2	3.0	2.3	-0.9	-2.3	2.9	2.9	7.3	-13.7	12.1	4.6
	Kyrgyzstan	3.0	3.2	3.8	1.8	-2.4	-3.9	7.0	0.0	-10.9	23.3	16.7	2.7
	Tajikistan	4.3	3.9	0.1	1.3	-1.5	33.2	8.1	0.3	6.8	-221.7	-1.4	-2.0
	China	7.3	7.2	2.1	0.2	-1.5	-21.9	11.5	N/A	0.0	-37.7	9.8	2.1
	Korea, Rep.	2.5	1.8	2.0	0.7	-0.7	-0.5	-0.6	N/A	-1.4	2.3	6.4	-0.2
	Russian Federation	0.7	2.0	2.4	2.1	-1.0	0.0	4.5	3.2	-0.3	-13.8	5.5	3.8

Source: World Economic Forum, *The Inclusive Development Index 2018*.

In addition to values of the IDIs WEF also prepares an inclusive development dashboard which is a visual benchmarking tool comparing the performance of individual countries vis-à-vis their peers. The 103 countries are divided into two main groups by the level of per capita income: “advanced economies” and “emerging economies” and each of these groups are divided into quintiles (from “20% top performing” to “20% bottom performing”) by: 1) their current performance by the national indicators and 2) the 5-year trend of the national indicators. Table 4 reproduces the inclusive development dashboard for the four SPECA countries, as well as for some comparator countries, in 2018.

Table 4. Inclusive development dashboard for selected SPECA countries, 2018



Source: World Economic Forum, *The Inclusive Development Index 2018*.

Note: Ranks are defined within the group of "Emerging economies"

The dashboard presented on Table 4 is indicative of the diverse situation with respect to inclusive and sustainable development in the SPECA subregion. This concerns both the different levels of per capita income in the different countries but also regarding their stance on intergenerational equity and social inclusion. It is difficult to identify any specific common patterns so the situation needs to be analysed in detail at the country level for individual countries. Perhaps the one common pattern concerns some of the existing environmental problems in these countries, in particular, those related to the still high levels of carbon intensity.

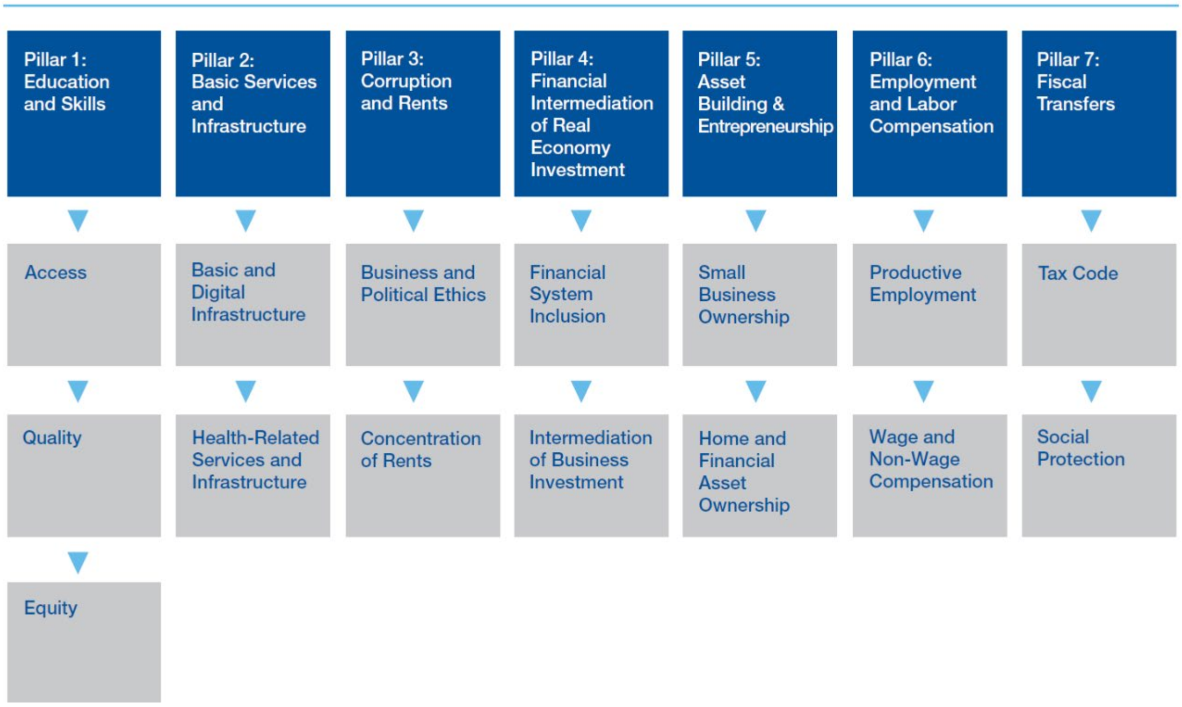
Apart from the IDIs, WEF also developed a policy-oriented framework and a set of indicators that support policymakers in fostering inclusive and sustainable economic growth development. The WEF policy-oriented framework fostering inclusive and sustainable economic growth allows to assess the policy environment in individual countries and the extent to which it underpins and fosters inclusive and sustainable economic growth.

This policy framework consists of 7 pillars related to policy and institutional environment as follows:

- Education and skills
- Basic services and infrastructure
- Corruption and rents
- Financial intermediation of real economy investment
- Asset building and entrepreneurship
- Employment
- Fiscal Transfers

Each of the pillars is broken down into sub-pillars (15 in all) and each sub-pillar is then broken down into policy and institutional indicators. The composition of the WEF's policy-oriented framework fostering inclusive and sustainable economic growth is shown in Figure 3.

Figure 3. Policy-oriented framework fostering inclusive and sustainable economic growth



Source: World Economic Forum, *The Inclusive Development Index 2018*.

The coverage and content of the pillars of the WEF policy-oriented framework fostering inclusive and sustainable economic growth are presented in Table 5.

Table 5. Description of the pillars of the WEF policy-oriented framework fostering inclusive and sustainable economic growth

Pillar	Coverage and content
Pillar 1: Education and Skills Development a) Access b) Quality c) Equity	• What is the breadth of enrolment in early, basic, vocational, and tertiary education as well as the availability of training services? • What is the quality of the education system in terms of the proficiency of secondary students, pupil-teacher ratio, internet access, public expenditure levels, and employer perceptions? • What are the pre-primary, primary, and secondary completion rates, basic reading and math proficiency by quintile of parental income? Is there equity of educational opportunity in a society?
Pillar 2: Basic Services and Infrastructure a) Basic and Digital Infrastructure b) Health-related Services and Infrastructure	• To what extent does a country provide its citizens with a core, common endowment of infrastructure and other basic services that enable productive engagement in the economy and provide often budget-relieving and quality-of-life-enhancing contributions to their standard of living?
Pillar 3: Corruption and Rents a) Business and Political Ethics b) Concentration of Rents	• To what extent do the country's policies and institutions foster broad-based economic opportunity and efficient allocation of resources through zero tolerance of bribery and corruption, low barriers to entry, and fair competition in product and capital markets?

Pillar 4: Financial Intermediation of Real Economy Investment a) Financial System Inclusion b) Intermediation of Business Investment	• To what extent are private savings being channelled to productive purposes and generating new capital formation in the real economy?
Pillar 5: Asset Building and Entrepreneurship a) Small Business Ownership b) Home and Financial Asset Ownership	• To what extent is the enabling environment conducive to broad-based asset accumulation and employment- and productivity-enhancing entrepreneurship?
Pillar 6: Employment and Labour Compensation a) Productive Employment b) Wage and Non-wage Labour Compensation	• To what extent is the country succeeding in fostering widespread economic opportunity in the form of robust job creation, broad labour force participation and decent working conditions? • How well does its enabling environment support a close correlation between growth in the productivity and compensation of labour, helping to ensure that a rising tide lifts all boats?
Pillar 7: Fiscal Transfers a) Tax Code b) Social Protection	• To what extent does a country's tax system countervail income inequality without undermining economic growth? How much of its tax burden falls on labour, capital, and consumption relative to its peers? • To what extent are a country's public social protection systems engaged in mitigating poverty, vulnerability, and marginalization?

Source: World Economic Forum, *The Inclusive Development Index 2018*.

The application of the WEF policy-oriented framework fostering inclusive and sustainable growth requires the evaluation of each county by the individual policy and institutional indicators. These initial evaluations are used to compile aggregated scores initially by the 15 sub-pillars and subsequently by the 7 pillars of the framework. The scores are computed on a scale of 1 to 7 where 1 stands for "entirely inadequate performance" and 7 – for "fully adequate performance".[25]

For visual benchmarking, similarly to the presentation of the IDIs, the policy scores can also be presented in the form of a dashboard which allows comparing the performance of individual countries vis-à-vis their peers. For this purpose, the countries within different per capita income groups are again divided into quintiles (from "20% top performing" to "20% bottom performing") by their scores for each sub-pillar and pillar.

Table 6 presents the scores and dashboard for the four SPECA countries and some comparator countries (the Russian Federation, China and the Republic of Korea) prepared in accordance with the WEF policy-oriented framework fostering inclusive and sustainable growth.

[25] For details see World Economic Forum, *The Inclusive Development Index* 2018.

Table 6. WEF policy-oriented framework fostering inclusive and sustainable growth: scores and dashboard for selected SPECA countries, 2018

Pillars and subpillars	Education and skills				Basic Services			Corruption / Rents			Fin. intermediation, real investment			Asset building, entrepreneurship			Employment			Fiscal Transfers		
	Pillar	Subpillars			Pillar	Subpillars		Pillar	Subpillars		Pillar	Subpillars		Pillar	Subpillars		Pillar	Subpillars		Pillar	Subpillars	
		Access	Quality	Equity		Infrastructure	Health		Ethics	Rents		Finance inclusion	Intermediation		SMEs	Home ownership		Employment	Compensation		Tax code	Social protection
Azerbaijan	4.50	5.10	3.59	N/A	5.31	5.10	5.51	3.78	3.78	3.78	2.80	3.51	2.09	4.55	4.47	4.62	4.71	4.95	4.47	3.62	3.58	3.66
Kyrgyzstan	4.27	4.78	4.02	6.34	5.14	3.88	4.92	3.97	2.93	2.59	3.09	3.31	2.25	4.43	4.12	3.84	5.25	4.32	3.61	3.23	3.25	3.88
Kazakhstan	5.05	5.31	3.80	3.69	4.40	4.77	5.50	2.76	3.93	4.02	2.78	4.06	2.13	3.98	4.52	4.34	3.96	5.36	5.14	3.57	3.09	3.37
Tajikistan	4.82	4.28	4.22	5.94	4.13	3.55	4.71	3.78	4.24	3.33	2.63	3.17	2.09	3.52	4.28	2.76	4.83	4.68	4.97	2.87	2.89	2.84
China	4.93	5.41	4.36	5.02	4.95	5.05	4.84	4.38	4.19	4.57	4.38	4.28	4.48	4.26	4.75	3.77	4.78	5.10	4.46	3.53	3.22	3.84
Korea, Rep.	5.46	5.93	4.78	5.67	5.31	5.16	5.46	4.04	3.56	4.51	4.73	4.75	4.71	4.84	5.46	4.21	4.17	4.55	3.79	4.42	4.24	4.59
Russian Federation	5.33	6.27	4.36	5.37	5.12	5.22	5.03	4.08	3.38	4.77	3.04	3.73	2.36	4.00	4.67	3.34	5.00	5.25	4.75	3.80	3.09	4.51
Azerbaijan				N/A																		
Kyrgyzstan																						
Kazakhstan																						
Tajikistan																						
China																						
Korea, Rep.																						
Russian Federation																						

Source: World Economic Forum, *The Inclusive Development Index 2018*.

Notes: Scores (numbers in the table) are presented on a scale of 1 to 7; 1 = entirely inadequate performance; 7 = fully adequate performance.

Ranks:

Bottom 20% Top 20%

Ranks are defined within subgroups of countries by level of income

These data confirm the considerable heterogeneity existing within the SPECA subregion also with respect to the policy-oriented framework fostering inclusive and sustainable growth. In terms of possible common patterns this information suggests that the policy environment in the SPECA countries is fairly supportive as regards the pillars of inclusive and sustainable growth referred to as ‘Asset building and entrepreneurship’ and ‘Employment’. By contrast, the policy environment in the SPECA countries is less supportive as regards the pillars ‘Financial intermediation of real economy investment’ and ‘Fiscal Transfers’. The interpretation is similar when one goes deeper to the level of sub-pillars of the policy framework.

A more in-depth and substantive analysis of the situation with inclusive and sustainable growth in the SPECA Countries is presented in the next section.

4. What Can Instigate Inclusive and Sustainable Growth in the SPECA Countries?

The empirical evidence presented in the previous section indicates that the SPECA countries have recorded mixed results with respect to achieving inclusive and sustainable growth: successful outcomes by some indicators go together with dismal performance by others. In addition, this evidence highlights the significant heterogeneity of the SPECA subregion: it brings together countries with different natural endowments and development levels. Azerbaijan, Kazakhstan, Turkmenistan and Uzbekistan are among the resource-rich countries, especially as regards the endowment with hydrocarbon fossil fuels. This is not the case for the rest of the SPECA countries (except for Kyrgyzstan’s gold reserves). According to the World Bank classification of countries in the world by their level of GDP per capita, Afghanistan and Tajikistan fall into the low-income group of economies; Kyrgyzstan and Uzbekistan are among the lower-middle income economies; while Azerbaijan, Kazakhstan and Turkmenistan are classified as upper-middle income economies.[26]

At the same time, the geographic proximity, the cultural and historic traditions, the existence of common economic and environmental problems suggests that there are also many common policy challenges that the SPECA countries are facing. They are all land-locked economies with similar climatic conditions, dependent on each other for their trade and transport and having territories affected by desertification. Besides, despite the divergence in per capita incomes, all SPECA countries face some common development challenges, in particular, the need to diversify their economies. The analysis of the factors of inclusive and sustainable growth needs to take into account both the existing differences and similarities.

The quantitative performance indicators describing the patterns of growth in the SPECA countries can help in identifying some of the main problems and bottlenecks that each of these economies and the subregion as a whole may be facing in their efforts towards achieving inclusive and sustainable growth.

All SPECA countries are, albeit to a different degree, still on the road to mature developed economies. A first and fundamental factor for inclusive and sustainable development for such economies is the sheer acceleration of economic growth and its sustainability. To be high, robust and sustained growth needs to be broad-based and export-oriented which can only

[26] https://datahelpdesk.worldbank.org/knowledgebase/articles/906519

be achieved on the basis of a diversified economy. The experience of countries that have successfully achieved such a transformation suggests the need for a leading role of the manufacturing sector. Admittedly, none of the SPECA countries can claim to possess an economy that meets these conditions.

Dependence on mining and exports of primary resources implies a higher propensity to boom-and-bust economic cycles. Thus, during the decade of the 2000s, the resource-rich countries in the subregion benefitted from favourable world market prices for energy resources and recorded high rates of growth. However, life demonstrated that this growth was not sustainable as it almost entirely relied on resource exports in favourable market conditions. This period is now over and in more recent years one can observe the negative consequences of the excessive dependence on hydrocarbon exports. Moreover, the windfall profits collected by the resource-rich economies in the boom period translated into something similar to rent addiction and triggered excessive public spending. These countries have recently been facing the challenge of a painful downward adjustment in public spending and real personal income. Thus both the resource-rich and those that are not so well endowed need to establish multiple engines of growth by pursuing appropriate diversification strategies tailored to their local context.

As noted, the broadening of the economic base requires in the first place the modernisation and expansion of the manufacturing sector. However, this will be a long process which needs to be undertaken in carefully planned steps and should be backed by the countries' existing comparative advantages. What is common for all the SPECA countries is the importance of agriculture, which can be seen in the structure of economic output and exports and especially in the share of employment in the agricultural sector. Therefore the development of new manufacturing facilities integrated with agriculture as well as new agricultural value chains can be an important building block of diversification strategies.

The essence of inclusive growth is the broad promotion of employment opportunities across the populace and the mobilization of increasing participation of the labour force in productive and gainful employment. It should be noted that it is difficult to assess properly the situation in the labour markets of the SPECA countries as some of them do not conduct labour force surveys using ILO methodology which are the most reliable sources of information on the level of unemployment. But the partial data as well as anecdotal evidence on the situation of labour markets in the SPECA countries (Table 1) indicates that some of these countries still face considerable challenges in the broad promotion of employment opportunities.

One of the win-win approaches for increasing both the total employment and the inclusiveness of growth is to raise the female participation in the labour force and in gainful employment. As gender equality is crucial to sustainable development, women's greater economic empowerment would be a major contribution to the SPECA countries efforts towards inclusive economic growth. Mainstreaming gender equality requires raising public awareness, policy dialogue as well as specific measures facilitating the access of women to the labour market and to entrepreneurial opportunities.

Furthermore, many SPECA countries enjoy high shares of youth population. Such an age structure is both a challenge and development opportunity for the country. Undoubtedly it generates strain in the labour market (as seen by the high rates of youth unemployment) but also for the education system and other social systems. At the same time a large core of youth population is a potential source of vibrant growth in the future. For this to happen, however, young people need to acquire adequate knowledge and skills that would facilitate their entry to the labour market and would allow them to avail of available employment and entrepreneurial opportunities. In turn, for this to materialize, the education systems in the SPECA countries need to ensure equal education opportunities to all citizens and, related to that, to facilitate the school-to-work transition for school graduates. The scores on the pillar "education and skills" in the framework fostering inclusive and sustainable growth in the SPECA countries (Table 6) suggest that these countries still face considerable gaps in this area.

The most vibrant source of growth in any economy is the small business sector. The scores of the SPECA countries on the pillar "asset building and entrepreneurship" (Table 6) are relatively favourable but any additional efforts could bring highly beneficial results. For entrepreneurship to become an engine of diversification in the SPECA subregion, these countries need to establish a supporting environment for entrepreneurs to set up new businesses and for the development of small and medium enterprises (SMEs). These efforts may include a broad range of steps such as the support to education and vocational training for acquiring entrepreneurial and managerial skills as well as the development of support institutions and instruments for start-ups and SMEs, including the provision of coaching and business services.

One of the biggest lacunae in this area – as well as a deterrent to the expansion of new firms – is the access to finance. As evidenced from the scores on "financial intermediation" presented in Table 6, this is one of the weakest pillars in the framework fostering inclusive and sustainable growth in the SPECA countries. From a broader perspective, the access to finance depends on the development of the financial infrastructure, which includes the banking institutions per se but also the payment systems, insurance services, credit information bureaux, etc. These infrastructures are crucial to the effective operation of the various financial intermediaries.

One possible fast-track approach aimed specifically at the small business sector could be the establishment of public institutions that support the access of entrepreneurs and SMEs to finance needed for the expansion of their business. In turn, the operation of such institutions needs to be closely coordinated with that of the business support institutions targeting SMEs. Another specific avenue for facilitating the access of entrepreneurs and SMEs to finance could be the design and implementation of mass-scale entrepreneurship support schemes based on the low range of micro-credit. Micro-finance at preferential terms would also be well-suited to support entrepreneurs in agriculture but also to support young entrepreneurs. Young people could be specific targets of such micro-finance-based entrepreneurship support schemes and one of the instruments to enhance their entrepreneurial spirit. In addition to finance, such support schemes should provide a range of information and consultancy services to would-be entrepreneurs, including awareness raising, management training, business support services, support to networking and the like.

Diversification efforts will be more successful if they rely on local initiatives. International experience shows that bottom-up initiatives generated by the locals – who know best the local environment and context as well as the existing needs, the potential market niches and production opportunities – are the most successful. This is also one of the most effective and efficient ways to raise the inclusiveness of the growth and development initiatives. Therefore, countries need to establish a conducive environment for communities to identify and prioritize their own needs and come up with their own initiatives to address these needs. Support should also be provided to the engagement of key local stakeholders in implementing these initiatives.

As already noted, innovation can be an important engine for national and regional sustainable economic development and could ultimately drive the achievement of the 2030 Agenda for Sustainable Development in the SPECA subregion. The environment in emerging economies presents both specific challenges but also opportunities to innovation entrepreneurs. Thus this environment offers opportunities for catch-up and productivity growth on the basis of knowledge and technology transfer. Learning and diffusion of knowledge can support and facilitate the proliferation of this type of innovation processes in low-income countries. There is also an untapped potential in promoting and developing grassroots innovation in low-income countries which can offer win-win solutions, on the one hand, for development and economic growth and, on the other hand, for addressing local needs and problems. There is considerable room for managerial and organisational innovations which are not resource demanding. Experience of other countries provides evidence of entrepreneurs applying innovative pricing and financing strategies and business process innovations to serve lower-income markets profitably.

Economic research points to differences in industrial and particularly technology policy that would be appropriate for countries depending on their distance from the 'technology frontier'.[27] Countries that are further away from the technology frontier can exploit the 'advantage of backwardness' by facilitating technology transfer and the adaptation of imported technology.[28] Thus in the environment of immature emerging economies industrial policy needs to focus on expanding the country's absorptive capacity that supports the adaptation of existing innovations and foreign technology to the need of the local market.

Innovation based on adoption and adaptation (mostly through importing) can help address some of the challenges that innovators face in low-income countries and mitigate some of the associated risks. When adopting and adapting on the local market a product or technology from abroad, the time horizon is much shorter compared to an invention as some of the essential phases in the innovation process can be skipped. The financing requirements may be lower given that there is less need for R&D, and given that the innovation may be embodied in a piece of imported machinery which can be produced with economies of scale abroad. Plus, the innovation is less likely to be done by start-ups with no track record, and more likely by established firms with an established record of revenues, expenditures and credit history.

One key development bottleneck for all SPECA countries is the limited size of their domestic markets which is exacerbated by their land-locked geographic location. Obviously, the limited domestic market will remain as a major constraint for the development of some industries (such as those involving modern mass production) but will not necessarily be an impediment in other sectors such as agriculture and the related processing industries but also in services.

The diversification efforts in this case could pursue the establishment of sustainable virtuous cycles targeting the introduction of products new to the local market or substituting

[27] Aghion, P., N. Bloom, R. Blundell, R. Griffith and P. Howitt, 'Competition and Innovation: An Inverted-U Relationship', The Quarterly Journal of Economics, 120(2), pp. 701-728, 2005.

[28] Gerschenkron, A., *Economic Backwardness in Historical Perspective: A Book of Essays*, Belknap Press of Harvard University Press, Cambridge, MA, 1962.

imports, and closed within the domestic market. Such cycles engage the new suppliers and consumers into a self-propelling loop whereby supply breeds new/more demand and demand breeds new/more supply through a positive feedback. However, for such virtuous cycles to emerge and be sustainable, they need to be backed by a supportive business environment and framework conditions. The promotion of self-propelling virtuous cycles in the domestic market can become new engines of employment and growth in the SPECA countries. Besides, virtuous supply-demand cycles which are closed on the domestic market will benefit, up to a point, from relatively low competitive pressure coming from abroad. They will have a window of opportunity, probably measured by years or even decades, during which they can grow and strengthen and thus be prepared for facing stronger competitive pressures in later phases.

The mass-scale entrepreneurship support scheme discussed above could, through its wide outreach, serve as a catalyst for the emergence of new engines of growth for the economy and for the materialization of such self-propelling virtuous circles. In turn, this could also propel an autonomous deepening the local market even in the absence of strong linkages to the international market.

But the limited size of the domestic markets is a factor that also reinforces the argument for the need of further opening up of these economies. The access to larger regional and global markets can open up new opportunities for local businesses to grow, innovate and diversify their business portfolios and hence for the overall economic diversification of these countries. This is even more so the case for land-locked economies as the SPECA countries. Thus the promotion of efficient trade and transport links with their neighbours and the development of well-functioning transit corridors in the subregion is a key factor in the efforts for economic diversification and development of these economies.

At present, the structure of SPECA countries foreign trade is quite diverse both on the exports and on the imports side, reflecting the heterogeneity of their economies and their different development levels (Table 7).

Table 7. Foreign trade of the SPECA countries by some key trading partners, 2017, % of total

	Main trading partners	China	Germany	India	Iran	Israel	Italy	Kazakh-stan	Nether-lands	Russia	Turkey	Switzer-land	Uzbeki-stan
Exports	Afghanistan			56.5									
	Azerbaijan		5.0			6.1	23.2			5.4	13.6		
	Kazakhstan	11.9					17.9		9.8	9.3		6.4	
	Kyrgyzstan							5.1		4.9		59.1	9.4
	Tajikistan	17.7			7.1					13.4	27.5	12.5	
	Turkmenistan	83.7									5.1		
	Uzbekistan	15.5						7.7		10.7	8.6	38.7	
Imports	Afghanistan	21.1			20.5			11.0					6.8
	Azerbaijan	9.9	5.1							17.7	14.8		
	Kazakhstan	16.1	5.1							38.9			
	Kyrgyzstan	32.6						16.4		24.8	4.8		
	Tajikistan	8.7			4.4			19.0		38.0			
	Turkmenistan	8.9	9.8							8.0	24.2		
	Uzbekistan	23.7	5.6					10.7		22.5	5.8		

Source: https://theodora.com/wfbcurrent/

Despite the differences in the structure of trade flows across countries the statistics presented in Table 7 reveal that the main common trading partners of all SPECA countries include the Russian Federation and China both on the export and import side. This is not surprising given factors such as the size of these economies, the geographic proximity, as well as historic economic and socio-political ties. Turkey is also an important trading partner for many SPECA countries which reflects not only ethnic and cultural links but also Turkey's active policy on widening economic ties with Central Asia. On the other hand, Table 7 clearly indicates the weak bilateral trade links among the SPECA countries: Kazakhstan is the only country that is among the main trading partners of other SPECA countries.

The structure of trade flows reveals the existence of considerable untapped potential for further widening and deepening of the international economic relations in the SPECA subregion especially as regards their bilateral trade flows and the intensification of regional and international transit flows. Closer economic cooperation in these areas will give a boost to economic growth in each and every country and, if properly guided, will also support sustainable development in the subregion.

One should note, however, that the prevailing at present economic structure of the SPECA countries (most of which are specialized in primary commodities) acts in itself as an impediment to the widening and deepening of their bilateral trade. Actually, these economies are specialized in a similar manner, there are very few complementarities in the composition of their exports and therefore they are in many aspects competitors in international markets. As to the import side, all SPECA countries seek to import high value added goods such as new technologies needed for their economic modernisation. However, none of the SPECA countries is a source of such high technology products and the latter are delivered from distant advanced economies. The nature of the present day economic structures is the main underlying factor that can explain the limited intra-regional trade among the SPECA countries as reflected in Table 7. Boosting bilateral trade implies significant further development efforts and economic diversification of these economies that would create new opportunities for mutually beneficial commercial exchange among them.

Furthermore, while historically Central Asia played a key role as a centre of global trade, at present it is at the periphery of the international trade flows. The main factor behind this regrettable development is the degradation of the historic inland transit corridors and the emergence of cross-border impediments to trade. Reportedly, long lines and delays are a common feature of border crossings in Central Asia. Thus as per truck drivers reports, in 2017 it took as much as 58 hours and $318 for a shipment of goods to cross one of the borders in Central Asia. For comparison, in other neighbouring parts of Asia, truck shipments took an average of 17 hours and $158 to clear cargo at the borders.[29]

A recent in-depth study of Euro-Asian transport links (EATL) pointed out to some key remaining challenges and obstacles hampering the development of these transport links such as:[30]

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[29] ADB blog. "Reviving connectivity and diversifying trade in Central Asia", blog article available at: https://blogs.adb.org/blog/reviving-connectivity-and-diversifying-trade-central-asia.

[30] UNECE, *Euro-Asian Transport Links Project – Phase III, Expert Group Report*, 2019; UNECE, "Transport corridor operationalisation in the Euro-Asian region and beyond. Note by the secretariat", (https://www.unece.org/fileadmin/DAM/trans/doc/2019/wp5/id-19_04e.pdf).

- Missing road and railway and inter-modal/transshipment infrastructure links on some EATL segments, outdated border crossing infrastructure and equipment in other places;
- Cumbersome border crossing, customs and transit procedures, lack of access to and implementation of UN legal instruments;
- Missing unified railway regimes along EATL railway routes;
- Lack of harmonized operating and technical inter-operability standards for railway infrastructure and rolling stock;
- Poor ICT connectivity and ICT interoperability on EATL corridors.

In fact, poor connectivity is at present one of the main challenges facing policymakers in the SPECA countries. A recent report supported by the OECD found that there is a significant connectivity gap between the Central Asian countries and the most logistically advanced countries. According to the findings, the Central Asian countries can access 50% less economic opportunities, as measured in terms of world gross domestic product (GDP), than a country like Germany.[31] The long distance from main international markets, the low density of settlements and economic activity, the infrastructure bottlenecks as well as the existing policy and regulatory barriers to cross-border trade flows limit the potential of the subregion to support large international transit flows as compared to the situation in the more distant past.[32]

However, the potential for improving connectivity is there and it is up to policymakers of the SPECA countries to develop it and make it work to their mutual benefit. At present, due to the nature of their current economic structure discussed above, the eventual rise in international transit flows probably has a greater potential for bringing economic benefit to each transit country (respectively, for promoting inclusive and sustainable growth) than the possible immediate increase in their bilateral trade flows.

Turning trade, transport and transit into pillars of sustainable and inclusive growth requires, on the one hand, dedicated long-term efforts in building the physical infrastructure necessary to support the efficient transportation and transit of trade shipments and, on the other hand, the institution of favourable trade and transit regulations in each and every country along the transport corridors as well as the establishment of an conducive trade facilitation environment including border crossing and customs clearance. Lowering the existing intra-regional barriers to trade and transport can both provide a solid boost to the regional market and can contribute to better connectivity of Central Asia to the neighbouring countries and regions and this to the global markets.

Trade regimes depend, among other things on the international commitments that each country has taken on itself and these differ from country to country within the SPECA subregion. Thus, Afghanistan, Kazakhstan, Kyrgyzstan and Tajikistan are members of WTO while Azerbaijan, Turkmenistan and Uzbekistan are not. Kazakhstan and Kyrgyzstan and also members of the Eurasian Economic Union support the deepening of trade and economic cooperation among its members.

China is also a key economic player in Central Asia. Apart from pursing the expansion of its exports within the SPECA subregion, China is now engaged with the ambitious large-

[31] ITF, *Enhancing Connectivity and Freight in Central Asia*, International Transport Forum Policy Papers, No. 71, OECD Publishing, Paris, 2019.
[32] OECD, *Enhancing Competitiveness in Central Asia*, 2018

scale and long-term Belt-and-Road initiative which involves all SPECA countries. Potentially, this can be a win-win project for all participants as it would give a significant boost to the development of physical infrastructure in the subregion and SPECA countries would also benefit from the intensification of transit flows. However, the implementation of the Belt-and-Road initiative also requires great caution so that partnership within the initiative is equitable and gains are shared by all partners.

Finally, the climatic conditions in the SPECA subregion are rather harsh and the subregion is prone to natural disasters. It faces significant environmental challenges which complicate the national and subregional efforts aimed at inclusive and sustainable development. To mitigate these effects the countries in the subregion need to raise the capacity to implement appropriate disaster risk management both at the national and at the subregional level. Furthermore, as regards transport infrastructure, there is a need for dedicated and coordinated efforts directed towards making it more resilient.

5. Some Policy Conclusions

5.1. The general policy framework of inclusive and sustainable growth

The analytical review presented in the previous sections suggests that there is ample room for policy intervention that could support the objective for achieving inclusive and sustainable growth. There are policy implications of a general nature that apply to any country that would set inclusive and sustainable growth as a policy priority but there are also policy conclusions that mostly relate to the specificity of the SPECA subregion and that of individual SPECA countries. This subsection is dedicated to the first type of more general policy conclusions including those SPECA-specific implications that are of common relevance for several countries in the subregion.

Before discussing concrete policy implications we would like to stress that from a policy perspective, achieving inclusive and sustainable growth should always be treated as a long-term objective. There are no magical recipes that could deliver the desired results within a short time horizon. This aspect is a challenge for policymakers as their planning horizon is usually narrowed down to their expected term in office. Targeting long-term objectives implies the necessity to define a vision for the future and to build a political consensus within the society to ensure continued support for the pursuit of these objectives despite possible changeovers of government.

If applied to individual countries, such an approach amounts to the formulation of a national long-term strategy for pursuing inclusive and sustainable growth which would spell out the objectives as well as the means and resources for the pursuit of these objectives. Moreover, given the broad nature of the notion of inclusive and sustainable growth, the objectives may need to be broken down into sub-objectives reflecting the different features of inclusive and sustainable growth (Box 1) while the means would take the form of a policy mix which encompasses the various specific policy instruments that address individual sub-objectives as well as the resources needed to back each such instrument. The policy inferences laid down below follow in the main this concise logical framework of formulating policy recommendations for the pursuit of inclusive and sustainable growth.

Drawing on the discussion in the previous sections, a strategy for inclusive and sustainable growth will need to identify policies that would both support robust, lasting and environmentally sustainable growth and would also prompt changes in the nature of growth by opening new opportunities to all. Such a strategy should provide clear links between macroeconomic performance and the individual dimensions of well-being. To achieve this, it should capture the policy influence on the key dimensions of future development through both direct and indirect transmission channels and should make explicit the main policy trade-offs and synergies so that both policymakers and the public at large can be better informed about the multidimensional nature of the living standard.[33]

Another specificity of a strategy for inclusive and sustainable growth is that it may be difficult to formulate it in terms of concrete quantitative targets. As discussed in section 2, inclusive and sustainable growth is a multifaceted notion and the generation of new employment opportunities or achieving more equitable income distribution can be regarded more as potential outcomes and not so much as specific goals of the strategy. Moreover, the strategy should focus on desired achievements with synergetic effect which would at the same time yield higher growth, generate more jobs and ensure broadly shared prosperity. The key factor of success of such a strategy would be to identify and set in motion the initial driving forces that would then jump-start a virtuous synergetic cycle. These driving forces most likely will be different from country to country and will depend on the local socio-economic environment and other circumstances. Therefore the policy framework should be sufficiently flexible to be adapted to a country-specific local context.

Notwithstanding the specificity of the local context, any long-term strategy implies an underlying policy approach in pursuing the long-term goals. The contemporary thinking in this area tends to favour an approach combining a lasting commitment by policymakers in the pursuit of these objectives and a relatively low direct intervention by the government in the economic processes. Such an approach is often referred to as "new industrial policy" in order to distinguish it from traditional industrial policy where the government applied vertical policy instruments targeting – and favouring – concrete economic sectors and/or businesses with the aim to establish what was nick-named as "national champions".[34] By contrast, new industrial policy relies mostly on horizontal instruments that seek to direct the behaviour of economic agents in the desired direction by establishing appropriate incentives. It is a systemic policy approach which seeks to improve systemic interactions and facilitate risk sharing among agents and stakeholders this affecting the structure of the whole economy and not only some targeted sectors.[35] It has been suggested that when applied to lower income countries such policies usually target the following objectives: import-substitution industrialisation; export-oriented industrialisation; resource-based industrialisation.[36]

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[33] OECD, *Report on the OECD Framework for Inclusive Growth*, 2014

[34] See Rodrik, D., "Industrial policy for the twenty-first century," CEPR Discussion Papers No. 4767, Centre for Economic Policy Research: London, 2004; Aiginger, K. "Industrial policy for a sustainable growth path", in: Bailey, D, Cowling, K and Tomlinson, P., *New Perspectives on Industrial Policy for a Modern Britain*, Oxford University Press, 2015.

[35] Dobrinsky, R, "The paradigm of knowledge-oriented industrial policy", *Journal of Industry, Competition and Trade*, 9(4), 2009,

[36] Ramdoo, I. "Industrial policies in a changing world: What prospects for low-income countries?", International Centre for Trade and Sustainable Development, Geneva, May 2015.

As pointed out, one of the main instruments for achieving inclusive and sustainable growth is productive employment. Therefore, appropriate reforms that are both pro-labour and pro-business probably should play a leading role in any strategy for inclusive and sustainable growth in developing and emerging economies. Measures to proactively influence and shape the nature of new employment and support entrepreneurial opportunities will have a multidimensional positive impact such as stimulating new entries from inactivity to active labour market participation (and hence the expansion of the labour forces); propelling new entrepreneurial initiatives and the expansion of existing ones which, in turn, could create additional employment opportunities and – as a result – the generation of new sources of economic growth.

Within the framework of new industrial policy, inclusive and sustainable growth should typically propelled by market-driven sources while governments play a facilitating role by instituting the appropriate framework conditions. Establishing an enabling environment for business investment and entrepreneurship can be critical to a country's success in expanding employment, boosting wages, and widening asset ownership, which are central drivers of progress in broad living standards.[37] A significant part of the policy efforts to implement a strategy for inclusive and sustainable growth needs to be focused on setting up and sustaining such business-friendly and predictable framework conditions.

Another avenue to pursue such a strategy is related to the set of policies that aim at broadening the access to entrepreneurial opportunities. Policies to make entrepreneurship more inclusive include various targeted financial assistance programmes, in particular, those that involve non-debt financial support, loans at preferential terms to those who wish to start a business, establishing networks of entrepreneurial support and coaching as well as the provision of various business support services. Institutional support includes also the removal of existing bureaucratic hurdles to would-be entrepreneurs and SMEs.

At the same time, the policies targeting inclusive and sustainable growth should boost both economic efficiency and social inclusion. From the perspective of the labour market supply, social inclusiveness requires that the labour force is endowed with the needed appropriate skills which, in turn, calls for dedicated policy efforts to support skill building and lifelong learning. Another building block is related to education policies which should aim at ensuring equal access to high-quality education from early childhood education to tertiary education and promoting adequate educational attainment by all segments of society. Plus, from the standpoint of social equity and the narrowing of incomes dispersion, the implementation of the strategy calls for well-functioning, transparent and efficient institutions.

Innovation policies can also play a crucial role in fostering inclusive and sustainable growth. Moreover, recently a new brand of "inclusive innovation policies" has emerged that aims to ensure that the whole population has opportunities to successfully participate in and benefit from innovation. Some segments of society (including women, low-income segments, excluded youth, disadvantaged groups, etc.) are systematically underrepresented in these activities, mainly due to lower capabilities or skills and less access to opportunities, possible discrimination in the labour markets, barriers to entrepreneurship, etc. Appropriate innovation policies can boost the capacity and opportunities of such underrepresented groups and

[37] World Economic Forum, *The Inclusive Growth and Development Report 2017*.

individuals to engage in innovation and entrepreneurial activities. Innovation policies can also support the development of new products and services that address the challenges of those facing social disadvantage.[38]

For innovation to provide benefits in an inclusive way, policymakers need to adopt clear and feasible national innovation strategies and design proper rules and support mechanisms in areas such as taxation, competition and data privacy. Competition and regulatory policies should help ensure that the benefits of innovation are broadly shared throughout society. Related to that, education policies and skill-building programmes need to develop capabilities to innovate. This requires a comprehensive and targeted learning strategy which includes education and learning in schools, families, communities and workplace that would facilitate entrepreneurs in translating business opportunities into innovation, diversification and sustainable employment.[39]

Innovation policies aimed at enabling “bottom-up” initiatives can also create synergies that support inclusive and sustainable growth. Specifically, promoting grassroots social and business innovative ventures can, on the one hand, mobilise the creative capacity of disadvantaged segments of the populations and, on the other hand, can ignite virtuous growth promoting cycles as discussed in the previous sections. Bottom-up initiatives based on new technologies can also be a factor in strengthening inclusiveness in policy making and implementation, by enabling new forms of collaborative and participatory governance.[40]

The digital age poses additional challenges to the policy efforts to ensure inclusiveness of growth enhancing innovation policies which need to ensure that growth creates broad-based employment opportunities and shared prosperity. As regards the environment in developing and emerging economies, the scaling of internet-enabled entrepreneurship and small-business trade can play a critical role. The policy mix should thus address not only the establishment of an enabling environment for the market entry of such entrepreneurs but should also support their growth phases until they are firmly settled on the market.

Trade policies also have the potential to enhance inclusive and sustainable growth. For this to materialize trade policies should be concerned not only with poverty alleviation but also with providing fairer access to benefits of economic openness and preventing socially disadvantaged groups from bearing the burden of trade liberalisation. Such trade policies need to be aligned with the general thrust of the strategy for inclusive and sustainable growth as discussed above.

Within the broader set of trade policies, trade facilitation measures aimed at reducing trade costs can play a special role for achieving inclusive and sustainable growth. Reduction in trade costs eases the expansion of regional and global value chains and drives productivity, economic diversification, exports and economic growth. By simplifying trade procedures, trade facilitation measures not only reduce trade costs but also enhance the access to and efficiency of trade-related services, enabling more workers and SMEs to benefit from growing economic activities. Such simplification benefits especially small businesses as they help in creating a level playing field both in the domestic and in international markets. Coherence between

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[38] OECD, *Making Innovation Benefit All: Policies for Inclusive Growth*, 2017.
[39] UNECE, Report of the Team of Specialists on Innovation and Competitiveness Policies on its Eleventh session, Geneva, 1 – 2 November 2018.
[40] OECD, *All On Board: Making Inclusive Growth Happen*, 2014.

domestic, regional and international trade policies is also important for ensuring that the benefits of trade are more evenly distributed.[41]

As regards infrastructure, the policy efforts should be focused on developing a well-designed and well-regulated open access infrastructure which can boost both growth and inclusiveness. The disadvantaged segments of society derive the greatest relative benefit from access to public infrastructure in the form of transport, drinking water, sanitation, electricity supply, education and healthcare. Better energy infrastructure can help combat "energy poverty", which is often present in developing countries; action is also needed to combat "fuel poverty" for those who cannot afford to pay for adequate heating. Access to mobile telephony and broad-band internet has also grown in importance as a means for the disadvantaged to better integrate into society and the economy.[42]

5.2. SPECA-specific policy implications

The experience of many countries has shown that policies are more successful in achieving their objectives when they are tailored to the local context, taking into account the socio-political environment, historic legacies, cultural tradition, geographic location, etc. Furthermore, reforms and policies work best when they enjoy popular support while there are no one size-fits-all policy models that will deliver an optimal solution in all cases. There are many examples of countries that have grown rapidly over long periods of time, but have not seen substantial reduction in poverty rates due to the lack of focus on the inclusiveness of their growth strategies. Resource-rich countries are specific cases of their own as the extractive industries usually do not employ much labour while the non-resource sectors may suffer contractions associated with Dutch disease effects during boom periods.[43]

These considerations need to be taken into account when contemplating the policy framework of inclusive and sustainable growth in the SPECA subregion as a whole as well as that in each SPECA country. Moreover, as noted above, there is considerable heterogeneity among the SPECA economies as regards their natural endowments and development levels.

One of the needed policy reform efforts which applies to all SPECA countries is the strengthening of the development orientation of their policy agenda. Despite their differences, all SPECA economies lag considerably behind the development frontier and therefore need to catch up in their per capita income levels which, in turn, calls for the invigoration of economic growth and the diversification of their economies.

The development of human capital and physical infrastructure are among the fundamental pillars of a growth strategy that targets diversification and inclusiveness. In turn, education and infrastructure determine to a large extent the capabilities of economies and societies to innovate and modernise and to do it inclusively. The more diverse, sophisticated and complex the knowledge base, the more feasible the opportunities for the economy. The knowledge base determines the feasible path of economic development, and the products,

[41] Trade as an engine for inclusive growth in Africa, https://www.tralac.org/discussions/article/11660-trade-as-an-engine-for-inclusive-growth-in-africa.html
[42] OECD, op.cit.
[43] E. Ianchovichina and Lundstrom, S. (2009). 'Inclusive Growth Analytics: Framework and Application', World Bank Policy Research Working Paper, No. 4851.

clusters and industries the country can develop as well as its capabilities to innovate, develop new industries and create more jobs. [44]

The combination of adequate human capital, physical infrastructure and a conducive business environment is one of the preconditions for the flourishing of entrepreneurship and the emergence of virtuous self-propelling supply-demand cycles that could support economic diversification and spur sustained economic growth in the SPECA subregion. The policy effort to support this type of development will be even more successful if they also rely on local initiatives and facilitate entrepreneurial discovery by local entrepreneurs. Such an approach is close in spirit to what came to be termed as "smart specialisation" policies.

However, one of the existing stumbling blocks for the implementation of this policy approach in the SPECA countries is the poor infrastructure of support institutions and intermediaries that could facilitate the market uptake of entrepreneurial ideas and projects. The building of such infrastructure in itself will be a long-term process which will require continued and dedicated policy effort from the governments. Therefore it is probably worth focusing on support institutions that will respond to already existing demand and that will be likely to produce immediate effect. One such example that can possibly be applied in all SPECA countries is the expansion of the scope of the public institutions supporting entrepreneurship and business development. While such institutions exist in all SPECA countries, on the whole the outreach of public support to entrepreneurs remains very limited in these economies.

Within this domain, one could highlight the role of micro-finance and some countries in the subregion have positive experience in its promotion. This is also an area where the national efforts are also likely to attract technical and financial support from international donors. By joining their forces, national governments, the private sector and international donors could in effect synergise in developing one important engine of propelling inclusive and sustainable growth in the subregion. In terms of the overall development effect, this is also a more efficient way to use limited financial resources in order to reach out with support to a greater number of would-be entrepreneurs than to allocate the same resources to the support of a limited number of large-scale projects.

The above policy concept can be realized through the design and implementation of mass-scale entrepreneurship support schemes based on the low range of micro-credit. It could be applied to all economic sectors and activities across the board and thus will also support economic diversification. Micro-finance at preferential terms would be well-suited to support young entrepreneurs, women entrepreneurs as well as disadvantaged groups and will therefore contribute to the inclusiveness of this development effort. In addition to finance, these support schemes should provide a wide range of information and consultancy services to would-be entrepreneurs.

Furthermore, through its broad outreach, the mass-scale entrepreneurship support schemes could serve as catalysts for the emergence of new engines of economic growth and for the materialization of self-propelling virtuous circles. In turn, this could also propel an autonomous deepening the local markets.

[44] UNECE, Report of the Team of Specialists on Innovation and Competitiveness Policies on its Eleventh session, Geneva, 1 – 2 November 2018 (ECE/CECI/ICP/2018/2).

These initiatives can also serve as pillars for the innovation-for-development efforts of the SPECA countries. Governments in the subregion need to guide markets towards innovation through a range of policy approaches including the support to entrepreneurs willing to take risks on new products and business models, the provision of better access to financial services needed to take innovations to scale, and supportive regulatory and tax regimes that balance the needs of society.[45]

The SPECA countries have already taken the first steps towards joint efforts in promoting innovation for sustainable development. A series of intergovernmental consultations have been under way since 2017 for the elaboration of a SPECA Innovation Strategy for Sustainable Development. These consultations are taking place under the auspices of the SPECA Governing Council and the SPECA Working Group on Knowledge-based Development. After the completion of the consultations, the SPECA Innovation Strategy for Sustainable Development is to be submitted for endorsement by the SPECA Governing Council. The main objectives of the draft SPECA Innovation Strategy for Sustainable Development are displayed in Box 2.

Box 2. Main objectives of the draft SPECA Innovation Strategy for Sustainable Development

The overall objective of the SPECA Innovation Strategy for Sustainable Development is to achieve a sustained improvement in the national capacity and capabilities of the SPECA countries to formulate and implement innovation policies for sustainable development and to raise the level and quality of subregional cooperation in the implementation of innovations that target and support sustainable development.

This would be achieved by following a set of specific objectives as follows:

- Upgrade the knowledge and skills base of key stakeholders in the SPECA countries to match the challenges of addressing SDGs with innovative solutions;
- Facilitate the diffusion of innovations and the transfer of technologies addressing sustainable development challenges in the subregion;
- Enhance the institutional framework for subregional cooperation for implementing innovation addressing sustainable development challenges of common interest;
- Contribute to improved performance of the SPECA countries in the degree of SDG achievement.

To achieve these objectives the SPECA countries will be applying the following key cooperation mechanisms:

- Strengthening the subregional policy dialogue and the sharing of good policies and practices, including the attraction of leading international expertise in innovation for sustainable development;
- Working together in identifying subregional and transboundary sustainable development challenges of high priority and common interest that call for innovative solutions;
- Raising awareness in the SPECA countries on the role of innovation in the efforts to achieve the SDGs.
- Strengthening cooperation with existing platforms and mechanisms for international collaboration in promoting innovation for sustainable development within the United Nations family of organizations.

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[45] Commission on Technology and Inclusive Development, *Charting Pathways for Inclusive Growth. From Paralysis to Preparation*, 2018.

The development of physical infrastructure is one of the pillars of the strategy to pursue sustained growth in the SPECA countries and is also fundamental for the promotion of solid and stable trade and freight transport in the subregion. As discussed as discussed in the previous sections, robust intra-regional trade and transport flows can also be additional drivers of inclusive and sustainable development and growth in the subregion. Therefore, it is of utmost importance for policymakers in the SPECA subregion to support these mutually reinforcing economic linkages.

The upgrading physical infrastructure is thus a key prerequisite for enhancing connectivity in the SPECA region. But while it is a necessary condition, infrastructure alone is not sufficient for better connectivity to materialize and contribute to sustainable and inclusive growth. For this to happen it must be supported by policy measures and procedures that facilitate transport flows and raise the resilience of the transport systems. In the context of the SPECA subregion these include but are not limited to the development of harmonized transport networks using agreed standards; the promotion of railway transport and intermodality for long routes; notable improvement of road safety; the incorporation of environment protection practices into the development of the transport systems; the introduction of measures for improving the efficient of the transport operations, etc.

At the same time, the invigoration of trade and transport flows depends crucially on the policy regimes that govern the bilateral and multilateral international economic relations of the SPECA countries. It will be recalled that the available evidence suggests that there is a significant potential for further widening and deepening of these relations. Therefore, policymakers in the subregion can make an important contribution to the joint development efforts towards inclusive and sustainable growth by further liberalizing their trade regimes as well as by easing, expediting and facilitating the trade flows, in particular, by means of streamlining trade, transport and transit procedures. Such coordinated policy efforts for boosting connectivity would yield win-win outcomes to all participants and would support the initiative to make the SPECA subregion a "land-linked" trade and transport area by transforming it from a land-locked periphery into a transport hub.

As already noted, enhancing connectivity in Central Asia calls for concerted and coordinated policy efforts by the governments of SPECA countries. Apart from the development of the resilient subregional physical infrastructure a key component of the policy efforts to boost connectivity is related to the measures to reduce trade and transport costs. Remember that the costs of reaching international markets for land-locked countries depend also on those of neighbouring countries. Thus coherent and harmonized regional policies would provide an opportunity to improve transit transport connectivity and ensure greater intraregional trade and expand regional markets.[46] Such measures would at the same time make transport within and through the SPECA subregion attractive also to all third parties. Given the great potential of the Belt-and-Road initiative to generate international transport flows, all SPECA countries would benefit from coordinated efforts to reduce trade and transport costs. All the above activities fall into the policy domains of trade and transport facilitation.

[46] V. Popov, "Regional Cooperation for Structural Economic Transformation Towards Sustainable Development in the SPECA Region", Background paper presented at the SPECA Economic Forum, Almaty, 20-21 September 2018.

Trade facilitation can be defined as "**s**implification, harmonization and standardisation of procedures and associated information flows required to move goods internationally from buyer to seller and to pass payment in the other direction"[47] and in the broad sense it includes policies that aim to reduce trade transaction costs. Thus the primary objective of trade facilitation is to help make trade across borders faster, cheaper and more predictable, whilst ensuring its safety and security. This implies streamlining formalities, simplifying and harmonizing procedures and the related exchange of information and documents between the various partners in the supply chain.[48]

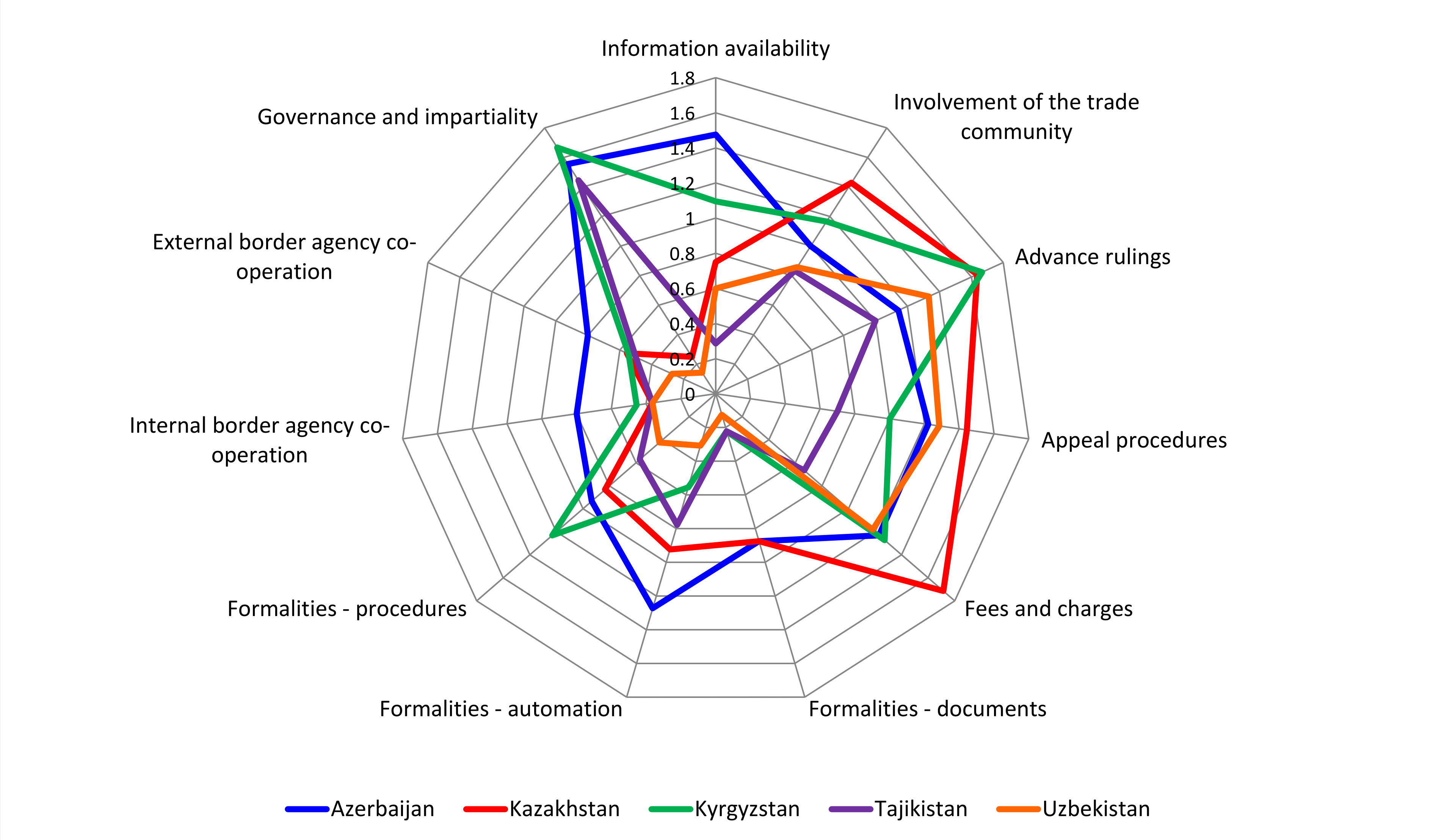
At the subregional level, as is the case of the SPECA countries, trade facilitation reforms can ensure that traders in the same subregion are not burdened by differential customs formalities and cross-border requirements that hinder cross-border trade. Harmonizing such formalities can remove existing bottlenecks and increase the participation of SMEs in international trade and, ultimately, can support the deepening of regional integration.[49] From this point of view, a regional trade facilitation approach calls for close cooperation among the countries which is needed for the coordination and harmonization of the national regimes.

The SPECA countries already have considerable experience in cooperation in the area of trade facilitation including through the United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT) and the SPECA Working Group on Trade. As part of the activities of this Working Group, SPECA countries are discussing a draft Trade Facilitation Strategy which would include a range of agreed actions for future cooperation in this area. SPECA countries also actively participate in the discussions on trade facilitation at the WTO and other platforms for international dialogue in this area. Furthermore, members of the WTO are required to implement the WTO Trade Facilitation Agreement (TFA), while those countries that are currently acceding to WTO have to demonstrate to their negotiating partners that they are effectively implementing the measures in the TFA.

This notwithstanding, there still exist some considerable hurdles impeding the smooth execution of trade transactions which is equivalent to unnecessarily high (in some cases excessive) trade transaction costs. The OECD has published the results of their evaluation of the situation of the trade facilitation practices in some of the SPECA countries as assessed by 11 specifically designed indicators (Figure 4 and Table 8).

[47] http://www.unece.org/cefact/index.htm.
[48] http://tfig.unece.org/details.html
[49] V. Tuomisto and M. Saeed, "Boosting Regional Trade with Coordinated and Harmonized Implementation of the Trade Facilitation Agreement", http://www.tradeforum.org/news/Regional-integration-through-joint-trade-facilitation-reforms.

Figure 4. OECD trade facilitation indicators for selected SPECA countries (2.0 = international best practice)



Source: http://www.oecd.org/trade/topics/trade-facilitation/

Table 8. The OECD Trade Facilitation Indicators

Indicator	Definition
Information Availability	Enquiry points; publication of trade information, including on Internet
Involvement of the Trade Community	Structures for consultations; established guidelines for consultations; publications of drafts; existence of notice-and-comment frameworks
Advance Rulings	Prior statements by the administration to requesting traders concerning the classification, origin, valuation method, etc., applied to specific goods at the time of importation; the rules and process applied to such statements
Appeal Procedures	The possibility and modalities to appeal administrative decisions by border agencies
Fees and Charges	Disciplines on the fees and charges imposed on imports and exports; disciplines on penalties
Formalities – Documents	Acceptance of copies, simplification of trade documents; harmonization in accordance with international standards
Formalities – Automation	Electronic exchange of data; use of automated risk management; automated border procedures; electronic payments
Formalities – Procedures	Streamlining of border controls; single submission points for all required documentation (single windows); pre-arrival processing; release of goods separated from final determination and payment of Customs duties; treatment of perishable goods; post-clearance audits; authorised operators
Internal Co-operation	Control delegation to Customs authorities; institutionalised mechanism supporting co-operation between various border agencies of the country; coordination / harmonization of data requirements and documentary controls; coordination of inspections; coordinated / shared infrastructure and equipment use
External Co-operation	Co-operation with neighbouring and third countries; alignment of procedures and formalities; coordination / harmonization of data requirements and documentary controls; risk management co-operation; joint controls
Governance and Impartiality	Customs structures and functions; accountability; ethics policy

Source: *OECD Trade Facilitation Indicators: An Overview of Available Tools*, 2018.

According to the OECD appraisal, the current state of trade facilitation is rather uneven both across countries and as regards the implementation of different trade facilitation measures. However, one of the striking aspects of this evaluation is that all the assessed SPECA countries uniformly perform very poorly vis-à-vis the indicators “External border agency coordination” and “Internal border agency coordination” which suggests that this is a systemic failure and a critical bottleneck in the trade facilitation practices in the subregion, notably, in their approach to coordinated border management and bilateral trade facilitation cooperation. Some countries perform poorly vis-à-vis the indicators “Formalities – documents” and “Governance and impartiality” but this is rather a country-specific characteristic as other SPECA countries feature more satisfactory performance by these aspects of trade facilitation.

Such an assessment has important policy implications as it hints at the areas where policy reforms could produce the most significant results in relatively short time in terms of enhancing trade facilitation practices. On the basis of these assessments, national policymakers can identify the key trade facilitation bottlenecks in their country and could focus their future policy reform efforts in these directions. Moreover, the cases when the trade facilitation assessment suggest that there probably exist systemic subregional failures and/or bottlenecks (as the two indicators referred to above) point to areas where subregional cooperation in addressing these weaknesses would be essential for the achieving results that would benefit all SPECA countries. This refers in the first place to the indicators “External border agency coordination” and “Internal border agency coordination”.

Table 8 spells out the main content of each indicator and from these definitions it is possible to identify and formulate the concrete areas where: a) each country needs to focus its own national policy efforts and b) where the SPECA countries would benefit significantly if they deepen their cooperation in simplifying and harmonizing their formalities.

Trade facilitation is inextricably linked with the ease and efficiency of the transportation of the goods concerned. In this regard transport facilitation – which in effect is part of trade facilitation – is often considered on its own merit and may require some specific policy approaches and measures. In general, transport facilitation refers to the simplification and harmonization of international transport procedures and the information flows associated with them.[50]

Most of the trade facilitation indicators presented in Figure 4 and Table 8 are directly or indirectly related to transport facilitation. Therefore, any national or coordinated subregional policy reforms in these areas as discussed above need at the same time to address and be coordinated with the respective transportation aspects and need to incorporate the adequate transport facilitation components. Enhancing intra- and inter-regional connectivity requires that trade and transport facilitation are treated in a holistic manner, taking into consideration their intrinsic interlinks and mutual effects.

The SPECA countries do cooperate in this area as well, in particular under the auspices of the UNECE’s Inland Transport Committee, ESCAP’s Committee on Transport and the SPECA Working Group on Sustainable Transport, Transit and Connectivity. The UNECE has been recognized as an important international platform for regulatory and technical

[50] https://www.unece.org/trans/theme_facilitation.html.

intergovernmental cooperation in the development of transport facilitation measures for inland transport modes. It has developed and administers 58 international legal instruments in this area including topics that are crucial for development of SPECA transport system such as rail transport, intermodality and road safety.[51] ESCAP has also developed a number of transport facilitation models which address existing challenges and facilitate seamless international road transport,[52] including the Time/Cost-Distance methodology.[53]

More specifically, UN/CEFACT trade facilitation recommendation 42 promotes the establishment of national Trade and Transport Facilitation Monitoring Mechanisms in UN Member States, which is based on periodic Business Process Analyses, Time Release Studies and Time/Cost Distance studies. In this framework, a Business Process Analysis of the exports of wheat from Kazakhstan to Azerbaijan was carried out in 2019, following up on a similar study on the same product five years earlier.[54] The empirical analysis reported in this study has made it possible to formulate a number of practical recommendations on further simplification of the trade documents and streamlining of the border procedures in the trade with cereals between the two countries. Moreover, these recommendations could have a broader significance for the facilitation of the trade in cereals within the SPECA region.

Connectivity in the contemporary world in general – and SPECA connectivity in particular – is a broader and more complex notion than the traditional understanding in terms of the trade and transport of goods. More specifically, the importance of digital connectivity has been constantly growing for various aspects of economic and social life. Digital connectivity creates new opportunities by empowering citizens, transforming work, creating new business models and accelerating innovation and thus can be another driver of economic development and inclusive growth. ICT infrastructure (both physical and virtual) is critical to promoting digital connectivity and harnessing the benefits associated with it. And, similarly to the challenges related to the trade and transport of goods, digital connectivity in a subregion like Central Asia can either be a deterrent to overall subregional economic development or can stimulate economic growth and diversification both at the national and subregional level. Therefore, when the SPECA countries contemplate measures to enhance intra- and inter-regional connectivity (including trade and transport facilitation), they need to widen the policy dialogue in a way so as to incorporate digital connectivity in these discussions.

6. How Can SPECA Contribute to Inclusive and Sustainable Growth in the Subregion?

The evidence and the conclusions presented in this paper can serve as the basis for formulating some policy options and recommendations that the Governments of the SPECA countries may wish to take into consideration when contemplating new approaches of subregional cooperation in the context of the SPECA Programme that would target the enhancement of inclusive and sustainable development and growth in the subregion. Given the

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[51] ibid.
[52] https://www.unescap.org/resources/transport-facilitation-tools
[53] https://www.unescap.org/resources/timecost-distance-methodology
[54] Y. Vassilevskaya, "Business Process Analysis Study for Cereals Export of Kazakhstan to Azerbaijan", 2019, mimeo.

mission and mandate of the SPECA Programme, the main focus of such new joint efforts would be on policy dialogue, subregional technical cooperation, sharing and application of best policy practices and practical experiences as well as on the fostering of technical and other assistance to the SPECA countries.

Despite such a narrowing down of the policy scope addressed by the proposed recommendations, this area still remains very broad. Given the fact that any new policy efforts are associated with certain claims on new resources to be allocated for implementation, there is an obvious need to prioritize the envisaged new actions. This is an issue that only the SPECA countries and their Governments can address. In this regard, the Governments of the SPECA countries will need to identify the most important common issues and critical bottlenecks where subregional cooperation is essential for success. Focusing the joint efforts on such areas will ensure that subregional cooperation is effective and efficient in addressing matters of common interest.

Based on the understanding that UNECE and ESCAP will continue to support subregional cooperation in the framework of SPECA, possibly in collaboration with the UN Resident Coordinators in the SPECA countries, the recommendations formulated in this section refer mostly to thematic areas where such cooperation is institutionalized in the context of the existing SPECA Working Groups, and correspond to the mandates of UNECE and ESCAP. Furthermore, given the topic of the 2019 SPECA Economic Forum, the policy recommendations outlined below feature a greater focus on the role of connectivity in supporting inclusive and sustainable growth and development in the subregion. The SPECA Working Groups, in particular, those on Trade; Sustainable Transport, Transit and Connectivity; and Knowledge-based Development will be providing platforms for regular intergovernmental and expert consultations on various aspects of inclusive and sustainable growth as discussed in the paper and will assist the Governments of the SPECA countries in planning and undertaking the practical implementation of some of the recommended actions.

The recommendations formulated below are structured and grouped in accordance with the conceptual framework of inclusive and sustainable growth in the SPECA subregion as developed throughout the paper.

Recommendations and policy options of fundamental nature targeting inclusive and sustainable growth

1. <u>Consider a common SPECA policy approach for pursuing inclusive and sustainable growth in the SPECA subregion</u>

- Discuss and identify common framework conditions for inclusive and sustainable growth in the SPECA subregion;
- Discuss and identify common bottlenecks and impediments to inclusive and sustainable growth and agree on a roadmap for their mitigation;
- Share experiences and policy practices for enhancing inclusive and sustainable growth and discuss common policy measures;

- Discuss and agree on the essential forms of cooperation for promoting inclusive and sustainable growth in the SPECA subregion;
- Share experiences in providing priority support to bottom-up entrepreneurial initiatives that target wider involvement of disadvantaged members of society.

2. <u>Encourage the SPECA countries that have not yet done so to join the initiative for conducting voluntary national reviews on progress in achieving the SDGs as recommended by the 2030 Agenda and organise SPECA subregional review meetings with a focus on inclusive and sustainable growth</u>

- The Agenda of the recurrent SPECA Economic Forums could envisage biennial monitoring sessions when countries would report on national progress in achieving the SDGs with a focus on inclusive and sustainable growth;
- Each country would prepare a national report on the above issues (ideally, based on the conclusions of their most recent voluntary national reviews on progress in achieving the SDGs);
- These national reports would be submitted to and discussed at the biennial monitoring sessions of the SPECA Economic Forum;
- The conclusions of these monitoring sessions would be reported to the SPECA Governing Council for consideration and action.

3. <u>Develop and upgrade the national capacity and capability to promote inclusive and sustainable growth in the SPECA countries</u>

- Set up national task forces in each country with the participation of policymakers, experts, academics and representatives of the business sector and civil society to coordinate the national policy agenda for pursuing inclusive and sustainable growth;
- Define context-specific incentives to motivate the engagement of key stakeholders in the process; promote a participatory approach in the formulation and implementation of policies and initiatives;
- Adopt national plans for capacity and skill development of key government officials and other stakeholders involved in the process;
- Request and mobilize technical assistance from international partners and donors for the implementation of capacity development programmes.

Recommendations and policy options in the area of trade and transport facilitation and improving connectivity

4. <u>Agree on further measures to address the most critical and common bottlenecks in the trade and transport in the SPECA countries, in particular, “External border agency coordination” and “Internal border agency coordination”</u> (see Figure 4 and Table 8)

- Request technical assistance and support from international partners (WTO, UNECE, ESCAP, OECD, etc.) for harmonizing external and internal agency procedures and practices in line with the International Convention on the Harmonization of Frontier Controls of Goods;

- Based on this, create coordination mechanisms and practices including institutionalised mechanisms supporting co-operation between various border agencies (within and across countries);
- Organize a series of capacity-building activities for training the relevant officials in each SPECA country on the practical application of these practices;
- Organize a series of joint events for sharing knowledge and experience in the practical application of these practices with representatives of each SPECA country;
- Organize periodic monitoring of progress in mitigating the most critical and common bottlenecks in the trade facilitation practices.

5. <u>Adopt measures to remove other existing problems and bottlenecks in trade facilitation and transport connectivity in the SPECA subregion aligned with the draft SPECA Trade Facilitation Strategy.</u>

- Collect information about complaints/grievances by traders and transport agents about existing problems in border crossing and customs clearance in other countries;
- Agree on a series of coordinated measures addressing existing problems in the transport systems not related to border crossings such as permits, vehicle dimensions, visas for drivers, terminals, rest areas, international transport of dangerous goods and passenger's transport;
- Conduct Time Release Studies and Business Process Analyses on border clearance in each SPECA country on a regular basis to monitor progress;
- Share such information among countries and discuss measures to reduce and eliminate problems and bottlenecks including maximum acceptable duration of border crossing and customs clearance;
- If needed, request technical assistance and support from international partners for developing such measures and organizing training for their introduction;
- Report regularly and discuss within the relevant SPECA Working Groups progress in eliminating existing problems and bottlenecks in each country;
- Periodically repeat the above steps.

6. <u>Initiate a programme for harmonizing the procedures for border crossing and customs clearance among SPECA countries in line with the draft SPECA Trade Facilitation Strategy</u>

- Discuss and agree on measures for the gradual harmonization of procedures and formalities for border crossing and customs clearance aligned with WTO standards, the International Convention on the Harmonization of Frontier Controls of Goods and other UN transport-related legal instruments;

- Adopt common standards for border crossing and customs clearance procedures and formalities at border crossing, including data requirements, documentary controls and common performance standards and practices for customs;
- Promote the introduction of Single Windows and consistent implementation of internationally agreed trade and transit facilitation legal instruments, including paperless technologies accelerating trade and transport operations and border crossing;
- Request technical assistance and support from international partners (WTO, UNECE, ESCAP, OECD, etc.) for the implementation of the draft SPECA Trade Facilitation Strategy;
- Organize a series of capacity-building activities for training the relevant officials in each SPECA country on the practical application of the above measures and the respective practices;
- Adopt roadmaps for introducing the harmonized procedures for border crossing and customs clearance in the SPECA countries;
- Organize within SPECA Working Groups periodic joint monitoring of the progress in implementing the draft Trade Facilitation Strategy, its constant update, as a living document; based on that and if needed, introduce changes in the procedures and standards.

7. <u>Broaden the scope of application of trade and transport facilitation instruments developed by international organizations</u>

- Share experiences, good practices and lessons learned on the implementation of international trade and transport facilitation instruments, including the UNECE Trade Facilitation Recommendations, the WTO Trade Facilitation Agreement, the UN transport-related legal instruments (such as AGR, AGTC, AGC, the International Convention on the Harmonization of Frontier Controls of Goods, etc.);
- Request technical assistance and support from international partners (WTO, UNECE, ESCAP, OECD, etc.) for awareness raising on existing international trade facilitation instruments still not applied in the SPECA countries;
- Organize roadshows with the participation of international experts to demonstrate the functioning of new international trade and transport facilitation instruments;
- Organize hands-on training for officials engaged in the practical application of new international trade and transport facilitation instruments.

8. <u>Consider steps for the harmonization of freight-related technical standards in line with UN transport agreements</u>

- Promote the accession by all SPECA countries to UN conventions establishing harmonized technical standards in the field of transport and transit and encourage strict implementation of their provisions;
- Encourage accession to the international standards on digitalisation to enhance efficiency in international transportation of goods by road (eCMR);

- Carry our regular consultations on harmonizing the technical standards on freight (such as train length, maximum weight and axle loads of heavy goods vehicles, etc.) taking into account international best practices;
- The harmonization of technical standards needs to be aligned with the process of harmonization of the procedures for border crossing and customs clearance as spelled out above.

9. Discuss coordinated policy measures to improve the quality of transport infrastructure and the flow of international freight transport in the subregion

- Carry out regular consultations on the future development of transport infrastructure in the subregion aligned with the UNECE transport network agreements and other UN transport-related legal instruments related to infrastructure development;
- Request technical assistance and support from international partners on best practices in transport planning and reinforcing the implementation of the TIR (including the eTIR international system) and the Harmonization Conventions;
- Organize hands-on training for officials engaged in the practical application of best practices in transport planning and reinforcing the implementation of the TIR and the Harmonization Conventions.

Recommendations and policy options on innovation for sustainable development

10. Provide support and coordinate the subregional efforts for implementing the SPECA Innovation Strategy for Sustainable Development

- Each SPECA country would appoint national Focal Points who would lead and coordinate the national efforts in implementing the SPECA Innovation Strategy for Sustainable Development in the respective country;
- The Governments of the SPECA countries would organize monitoring of the process of Strategy implementation through periodic national Monitoring and Evaluation Reports;
- The SPECA Governing Council would ensure oversight of progress in implementing the Strategy on the basis of the national Monitoring and Evaluation Reports.

11. Consider joint activities aimed at upgrading the knowledge base and practical skills of innovation stakeholders in the SPECA countries

- Organize national and/or subregional knowledge sharing and capacity-building seminars, with the participation of leading international experts, on innovation policies for sustainable development for key policymakers and stakeholders in the SPECA countries;
- Conduct technical assistance missions by leading international experts to help policymakers and stakeholders in SPECA countries in addressing existing weaknesses in the national innovation systems;

- Organise promotional campaigns for the broad public in each SPECA country to enhance the awareness on technology and innovation in society and the creation of a culture of innovation;
- Conduct promotional operations for awareness raising among the broad public on the objectives and activities of the SPECA Innovation Strategy for Sustainable Development.

12. Discuss measures to facilitate the diffusion of innovations and the transfer of technologies addressing sustainable development challenges in the SPECA subregion

- Agree on a set of coordinated policy measures supporting international linkages of SPECA countries with global technological value chains, including coordinated strategic approaches to FDI;
- Consider establishing a joint subregional technology transfer office to support the synergetic transfer of innovative technologies in the subregion (e.g. through cross-border technology brokerage and/or joint use of technology);
- Consider the possibilities for international multi-stakeholder collaboration as well as sharing and drawing on best practices of technology transfer, including with the UN Technology Facilitation Mechanism;
- Identify possible joint innovation for sustainable development projects where international cooperation can generate subregional synergies and economies of scale, and approach international donor agencies regarding possible funding of prefeasibility and feasibility studies for pilot projects.

Recommendations for strengthening cross-country cooperation among SPECA countries

13. Establish a SPECA Task Force on Inclusive and Sustainable Growth to facilitate cross-sectoral subregional cooperation on this issue. The SPECA Task Force on Inclusive and Sustainable Growth will perform, among others, the following main tasks:

- Assist in identifying common priorities in pursuing inclusive and sustainable growth among the SPECA countries as well as common problems that countries are facing in this area;
- Assist in identifying existing connectivity problems in the SPECA subregion that hamper the efforts of the countries to achieve inclusive and sustainable growth and call for subregional cooperation and approach;
- Support a holistic approach to identifying the key bottlenecks along all components of the connectivity chain;
- Facilitate the SPECA subregional policy dialogue and sharing of good practices in dealing with common policy issues and addressing bottlenecks through cooperative approaches;

- Promote the search for innovative trans-border solutions, including public and social innovation and innovative undertakings for sustainable development; support public awareness raising on the need to apply such solutions;
- Assist in mobilising donor support for policy advice, technical assistance, project design and implementation of commonly agreed solutions;
- The Task Force will support integrated cross-sectoral solutions to existing problems including those tackled by the thematic SPECA Working Groups; and
- The Task Force will be jointly supported by UNECE, ESCAP, and the UN Resident Coordinators in the SPECA countries, and will report to the SPECA Economic Forum and SPECA Governing Council.

14. Develop supplementary institutional mechanisms for implementing collaborative subregional efforts in promoting inclusive and sustainable growth

- Establish a dedicated stakeholder network and mechanisms for regular consultations among SPECA countries on policies for inclusive and sustainable growth of common interest;
- Support the development a network of research institutions in related areas;
- Launch a joint subregional online support service for grassroots initiatives, innovative entrepreneurs, startups and SMEs (consulting, mentoring, match-making, etc.);
- Discuss possible joint measures to support the establishment of subregional supply chains, which help share costly new technologies and organizational methods of production and trade.

15. Consider measures to improve the information exchange on trade and transport facilitation challenges of common interest

- Develop mechanisms for regular subregional and bilateral exchange of information among customs and transit authorities;
- Consider developing and implementing practical steps for mutual recognition of customs control results among the SPÈCA countries;
- Consider developing and implementing practical steps for cross-border mutual recognition of documents and data on trade in electronic form;
- Ensure regular exchange of information on changes in shipment regulations, tariffs and the possible temporary trade and transit restrictions for certain commodities; and
- Strengthen the oversight through the respective SPECA Working Groups of the implementation of the conditions and requirements of international agreements and conventions to which the SPECA countries are parties.

The recommendations formulated above should not be regarded as an all-inclusive set of the available policy options. They rather offer a first iteration of a future ongoing policy dialogue among the Governments of the SPECA countries on possible joint policy actions and practical cooperation steps aimed at promoting inclusive and sustainable growth in the subregion. This should be viewed as a demand-driven process run by the SPECA countries and reflecting their needs and priorities. Hence the Governments of the SPECA countries will be the main actors in this process. Such joint actions would not be substitutes for the national programmes and policies targeting inclusive and sustainable growth but would rather complement them with jointly agreed subregional initiatives where international cooperation would generate synergies and economies of scale and would add new value to the national efforts.